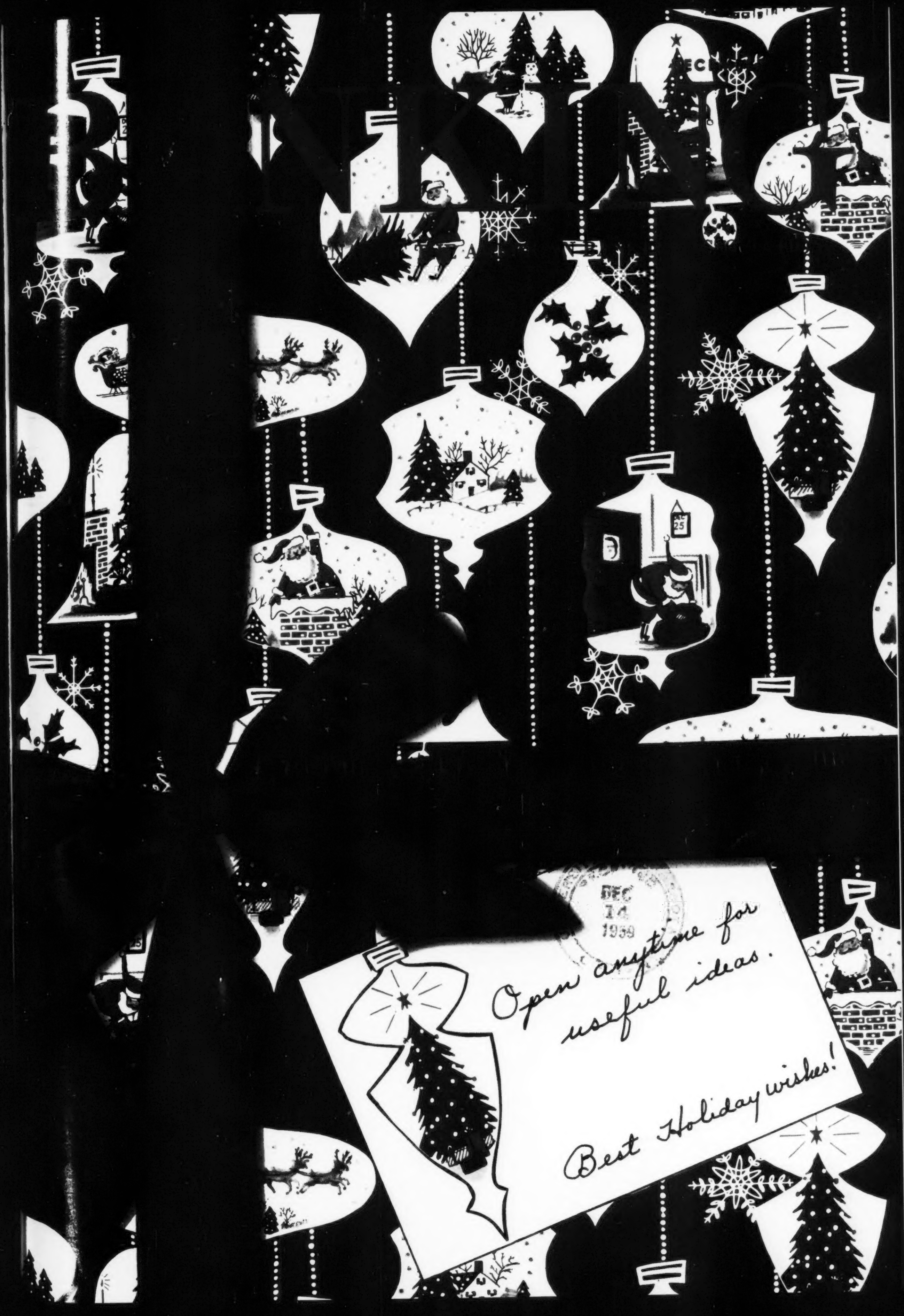
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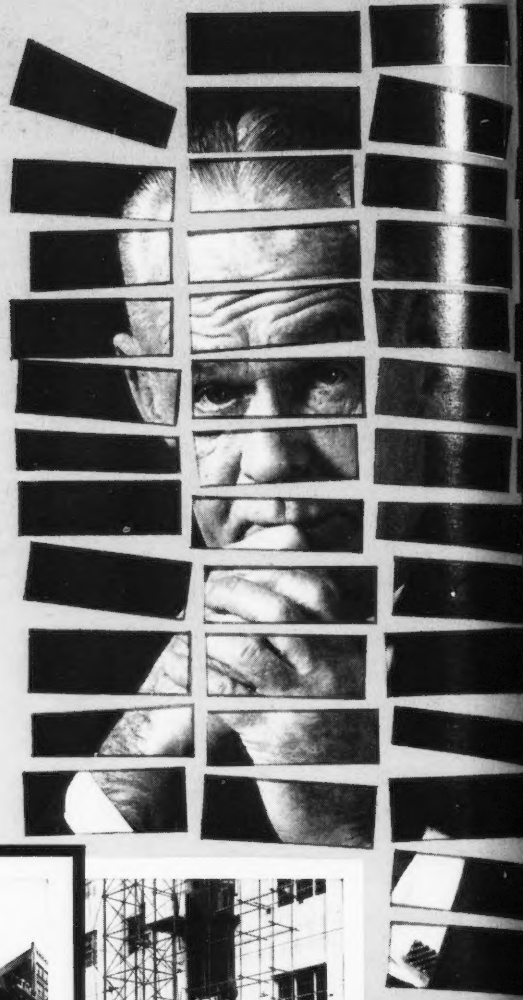

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how to get the

RIGHT ANSWER

to a big question

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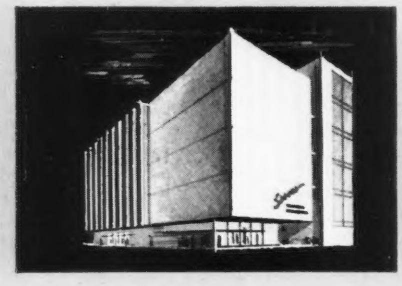

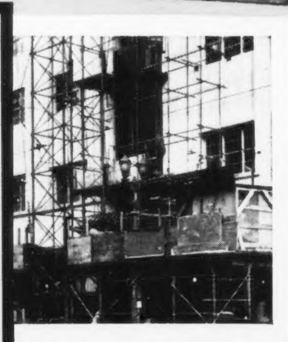

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BANKERS AND TRUSTEES ERRORS AND OMISSIONS INSURANCE. Indemnifies your bank against loss if by some inadvertent error or omission your mortgage interest in a property is not insured. This policy also protects the interest of your customer if the mortgage is serviced by your bank and also covers non-mortgaged property held in trust. Coverage is exceptionally broad. A very readable mail-folder describing this policy is yours for the asking.

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*** LENDERS BOAT INSURANCE.** Protects your bank if the borrower fails to carry the marine insurance he agreed to or if the insurance is not enough to cover your loan. You'll find our folder describing this policy highly interesting since the policy is a model for broad coverage and enables your bank to enter the boat loan business with assurance of full protection whatever the exigency. Write for this folder. We'll send it by return mail.

*** LENDERS HOME IMPROVEMENT INSURANCE.** We used to think that this kind of a policy wasn't needed—until bank losses started to pile up simply because most homes today are underinsured. We developed this policy to protect your bank against any physical damage whatsoever to home improvements you finance. It pays your bank regardless of other insurance the borrower carries so it removes the gamble from your loan—which is as it should be. Write for the descriptive folder.

CREDITORS GROUP LIFE INSURANCE. This is the policy that frees your bank from the unpopular act of collecting or repossessing from the dead borrower's family or from endorsers or co-signers. Pays your bank the outstanding balance on installment loans upon death of borrower. The Scarborough policy is unique in the special benefits it affords your bank. These are outlined in our descriptive mail-folder. Write for it.

CREDITORS GROUP ACCIDENT AND SICKNESS INSURANCE. This popular Scarborough bank policy is another strong goodwill booster and a blessing to the borrower as well as the bank. If he is sick or has an accident, Scarborough sends you a check to cover the payments due for the period of his disability. A descriptive folder written for quick, easy reading will be mailed on request.

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In This Issue

Christmas is coming, the geese are getting fat,
Please to put a penny in the old man's hat;
If you haven't got a penny, a ha'penny will do,
If you haven't got a ha'penny, God bless you!

Christmas Package

We don't know who wrote that "Beggar's Rhyme," but we do know what's inside the BANKING Christmas package you've just opened. And we feel it's worthy of the gay wrapping. Here's a quick sample of the merchandise.

Private Pension Funds

Herbert Bratter, BANKING's Washington correspondent, has wrapped up the most comprehensive bundle of information about private pension funds you could find anywhere. In our Special Report feature for this month he covers bank pension plans, the Fed's retirement system, pension fund investments, trusteed funds, problems and policies in administering pension and profit-sharing trusts, and legal angles.

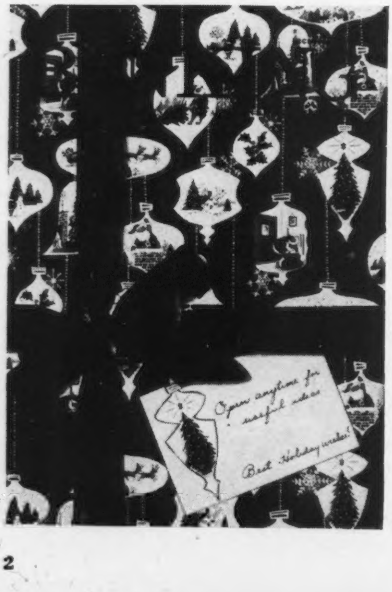
The report starts on page 43. The title is "Private Pension Funds—A Growing Giant."

Examination Costs

One present every bank would like to find in its Christmas stocking is fewer and less expensive examinations. Well, we can't produce that, needless to say. But we offer an interesting substitute, "Can Bank Examination Costs Be Cut?" by Herbert E. Kirmmse, a New York State supervising examiner. He has some worthwhile ideas on the subject, including specific suggestions.

Convention News

The A.B.A.'s 85th convention held at Miami Beach, the Financial Public Relations Association's annual meeting, the Trust Division's Mid-Continent Trust Conference, and the National Agricultural Credit Conference are reported in this issue. That's quite a batch of foregatherings, we admit, but the accounts are newsworthy.



THIS MONTH'S COVER

The Holiday gift wrapping that makes our colorful cover this month is by courtesy of Norcross, Inc. This last issue for 1959 rounds out a year in which BANKING has published a number of studies —on inflation, correspondent banking, pension funds, and so on—which the editors hope readers are finding of permanent value. A happy Christmas and a prosperous New Year!

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BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

COMPLETE — AUTHENTIC

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DECEMBER 1959

Some material belongs in several different classifications but for your convenience is usually listed under one heading only

HERE AND ABROAD

TAXES, TRUST, AND LEGAL

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INVESTMENTS

OPERATIONS AND PERSONNEL

THE COUNTRY BANKER

GENERAL NEWS

Constructing a Common Stock Portfolio with Long-Term Objectives

CHARLES V. KINTER

The discussion below is taken from an address given before the 28th Mid-Continent Trust Conference by Dr. Kinter, who is managing partner, Duff, Anderson & Clark, Chicago.

In view of the unpredictable world which awaits us, it is useful to consider briefly the yardsticks which one must use in appraising companies whose common stocks should be used in a long-term portfolio. As I see it, these are:

(1) The company should have a successful management development program. Good management at any particular time is not hard to identify, but the long-term investor has to look ahead. A tradition of fine management and a management training and development program is a good omen for the future.

(2) A successful record of achievement in research and the acceptance by management of the necessity of pressing forward in research.

(3) A minimum of vulnerability to strong unionism.

(4) A minimum of vulnerability to price regulation or other forms of governmental control, except where there may be offsetting benefits. An example of a regulated industry with offsetting benefits would be an electric utility, which has strong growth characteristics resulting from a monopoly position in good territory and where the regulatory climate is favorable.

(5) A minimum of vulnerability to changes in fashion or taste.

(6) A minimum of vulnerability to sudden changes in technology.

(7) A successful record of technical excellence and a strong position in an industry where technical excellence is important.

(8) A degree of diversification, but not so much overdiversification that the company is difficult for management to comprehend in all its aspects.

There are several areas it may appear to you that I have overlooked. For example, I might have included a minimum of vulnerability to competition as a desirable attribute. That would indeed be desirable but is impossible. Any industry and every company must face increasing competition.

The trust investment officer would be living in an eleventh heaven if he could have a portfolio of stocks which had all the attributes. He well knows he will not have that good a life but can use these yardsticks as reference points.

A question which frequently comes up is, "How can management be appraised?" This is not easy for most investors to do. I might explain how our organization approaches this problem. Here one is dealing with value judgments, which can be misled by sheer personality. There are steps which can be taken to assure that an appraisal is sound.

(1) Get acquainted with the top people in the organization—the officers and principal department heads.

(2) Get acquainted with as many people as you can in the second and third tier of management. This gives you a feel of the whole organization and permits you to see what kind of people are coming up through the ranks.

(3) Visit plants and other installations. In addition to learning about the company, you can ascertain a great deal about the spirit and drive of the organization. Be sure to visit the research departments.

(CONTINUED ON PAGE 6)

"We interrupt this festive occasion to announce the following budget reductions for 1960!"

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(CONTINUED FROM PAGE 4)

(4) Compare the record of the company in building earning power with other companies in the industry. This provides a documentary record of management success as compared with the achievements of other companies.

(5) Check with competitors. This can be most helpful if you are well enough acquainted with the people so they will be frank with you.

It should be possible for an experienced person, after taking the suggested steps, to have a clear concept of the management skills in any company and the probable continuity of present strength or weakness.

(CONTINUED ON PAGE 8)

Industry Spokesmen Analyze Investment Future

AMONG the outstanding speakers at the 28th Mid-Continent Trust Conference in Detroit were a number of authorities on the economic position of leading industries.

Because of our limited space, we can print brief excerpts from only a few of the opinions given by these speakers on the merits of their industries for investment purposes during the next decade or longer.

AUTOMOBILES — B. J. Nichols, group vice-president, automotive sales, Chrysler Corp., said that the industry expects to have 80,000,000 cars on the road by 1970. Also: "Companies that are strong and flexible will be able to take full advantage of the great opportunities that will mark the next decade."

DRUGS—The growth potential afforded the investor in the drug industry is charged by its vigorous research and product development as well as potent merchandising skills, observed John F. Bohmfalk, Jr., director of institutional research at McDonnell & Co. in New York. And, he added, "It is not an easy industry for others to break into; it does not have trouble overcoming the cost-price spiral, generally speaking; and there seems to be no ceiling to its markets."

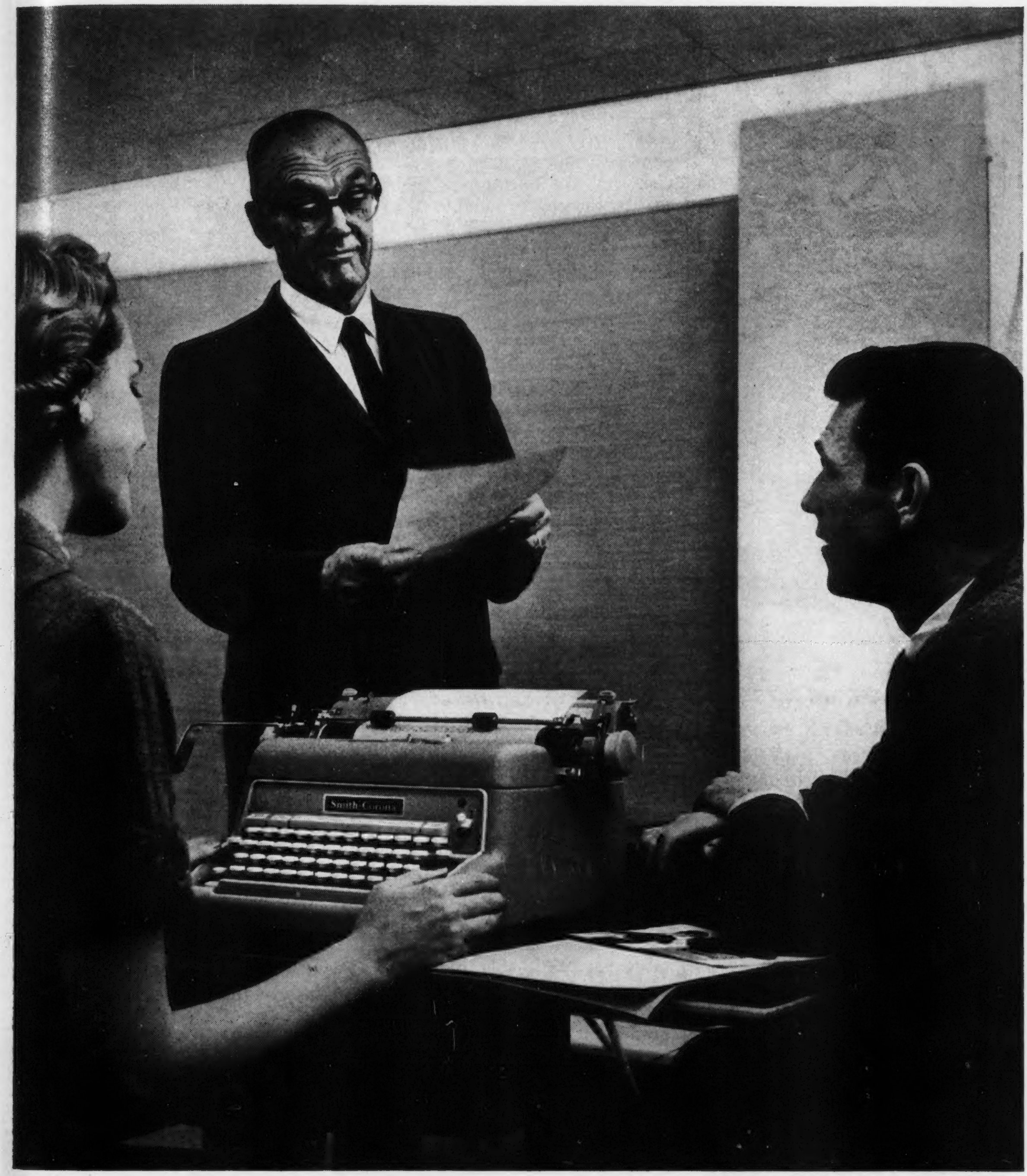
PETROLEUM—"The petroleum industry today suffers from a supply-demand imbalance which it would be pointless to ignore." Standard Oil Company (Indiana) Financial Vice-president David Graham went on to add that "Nevertheless . . . the industry has been able to maintain and in part strengthen earnings in a period of stress; and in the future, it should be the beneficiary of a continuing upward demand for its products. Discounting the immediate situation, it is . . . cushioned against excessive reverses on the one hand, yet geared for growth."

CHEMICALS—An industry's confidence in its own growth potential is a pretty good indicator of its future, observed the president of Wyandotte (Mich.) Chemicals Company, Robert B. Semple. "It is forecasted that in 1962 the chemical industry is expecting to spend approximately 24% more than in 1958, while all other manufacturing industries will increase their capital spending plans over 1958 by 4%."

The industry's tremendous research effort, says Mr. Semple, has led to this authoritative estimate: 16% of the chemical industry's sales in 1960 will be accounted for by products which were not in production in 1956.

UTILITIES — Regulation is the key to the investment future for the utilities industry. "Regulation has demonstrated its recognition of investor needs, and gives every evidence of continuing to do so," said Charles O'Neill, Duff and Phelps, Inc., vice-president. "The record of increase of utility company earnings and dividends obviously has satisfied investors; as we see the prospects over the next several years, they are at least as good as the record."

Some of the Mid-Continent Trust Conference speakers on industry's outlook are shown below. In the two pictures together they are, *left to right:* Messrs. Semple (Wyandotte Chemicals), Brown (R. W. Pressprich & Co.), Nichols (Chrysler Corp.), Rapparlie (Owens-Illinois), Morse (Smith, Barney & Co.); Kinter (Duff, Anderson & Clark), Upjohn (Upjohn Co.), Berkaw (Detroit Bank and Trust Company), Graham (Standard Oil Co. of Indiana), Hamilton (National Bank of Commerce, Houston), Pfleiderer (Detroit Bank and Trust Company)



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As to a few broad areas likely to provide investment opportunities, I would suggest the following:

(1) Areas where scientific progress is likely to be rapid, and therefore will provide new products and new investment opportunities. The chemical and electronic fields — I realize these are omnibus words—offer examples.

(2) Areas where good management can be effective. While good management is important anywhere and anytime, in a highly regulated industry, management has less opportunity for building earning power than when such control does not prevail, everything else being equal.

(3) Areas where possession of large raw material reserves will become of increasing significance because of increasing scarcity value or where supply, at probable prices, will not continue excessive in relation to rising demand. As an example, larger timber reserves of the most desirable species will not attain an increasing scarcity value.

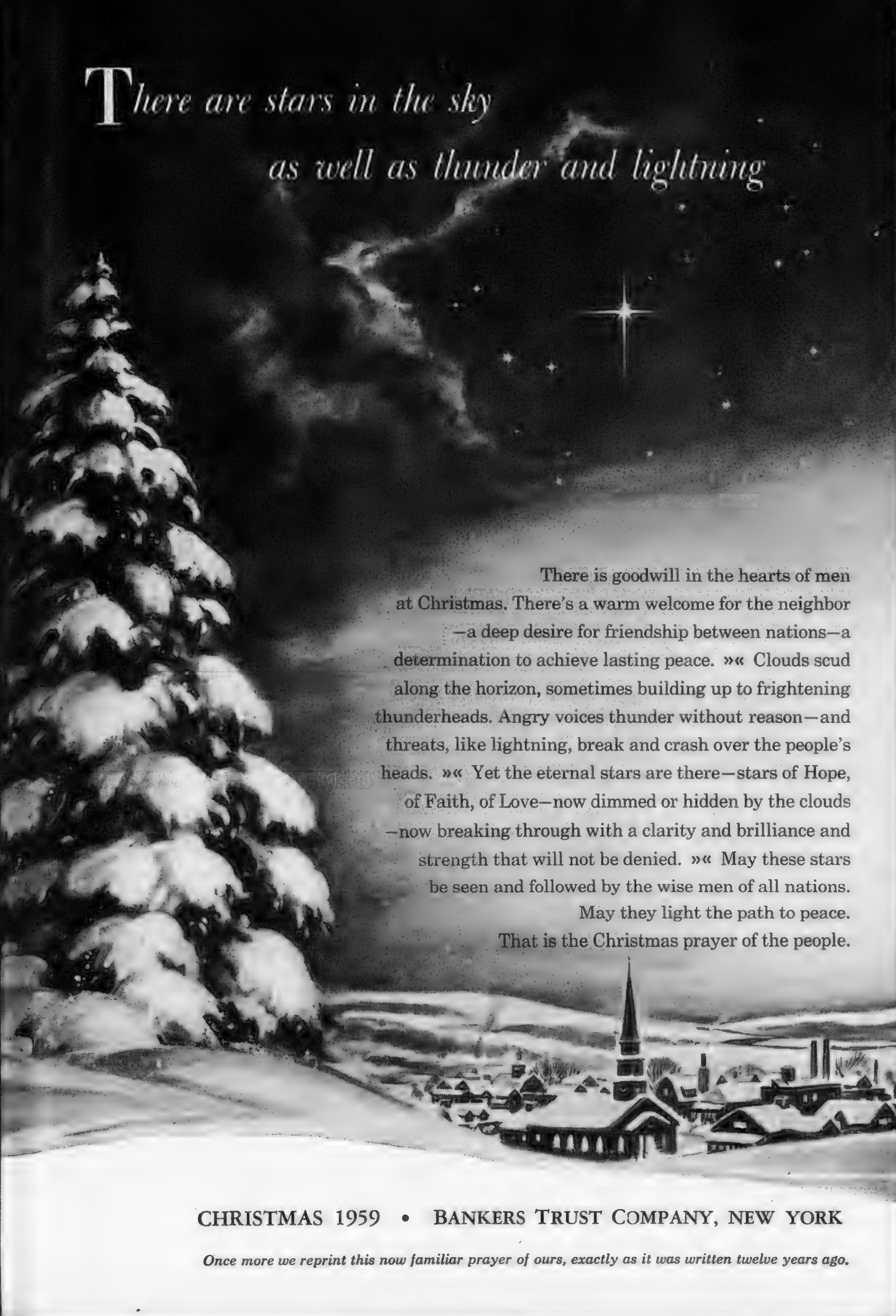
(4) Areas where the investor can benefit from rising real incomes in the hands of an increasing number of consumers. An example would be highly processed foods, particularly of the convenience variety.

(5) Areas where highly efficient equipment, rather than a large proportion of labor, can be utilized.

(6) Areas which will benefit from the development of atomic energy or other new sources of energy. Sometime within the experience of most people in this room, atomic energy—and again I am using an omnibus word — will be earning profits for investors. Such devices as the fuel cell also must be considered, both as perhaps a source of earnings and as competitor for present sources of propulsion.

(7) Areas which can supply unusual, high value materials, equipment, or components vital to key industries. I have in mind such items as control devices, unusual metals, and highly automatic machinery.

(8) Areas in an unusually favorable position to benefit from the spending propensities of a high income society with an abnormally large proportion of the population in age brackets where spending for consumption is greatest.


There are stars in the sky
as well as thunder and lightning
There is goodwill in the hearts of men at Christmas. There's a warm welcome for the neighbor —a deep desire for friendship between nations—a determination to achieve lasting peace. »« Clouds scud along the horizon, sometimes building up to frightening thunderheads. Angry voices thunder without reason—and threats, like lightning, break and crash over the people's heads. »« Yet the eternal stars are there—stars of Hope, of Faith, of Love—now dimmed or hidden by the clouds —now breaking through with a clarity and brilliance and strength that will not be denied. »« May these stars be seen and followed by the wise men of all nations. May they light the path to peace. That is the Christmas prayer of the people.
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PROFIT OR LOSS CALCULATION

GOVERNMENT BONDS

Market Has Its Better Moments . . . The "Magic 5s" . . . November Refinancing . . . Cost of 3-Month Bills Rises . . . Open Market Committee . . . Bank Loans Increase as Investments Decline . . . Outlook

MURRAY OLYPHANT

IN spite of the dragging effect on the progress of the general economy due to the unsettled state of the steel industry, the economic figures do not seem—as yet—to have been as seriously affected as might have been expected. But it is still too early to get any real indication of how drastic the drag may be before steel production is again back to its previous high level.

Already there have been pessimistic forecasts as to the volume of the Christmas retail trade, while the hopeful prospects for an upturn in the sales of new automobiles have been nipped in the bud as the various producers have either shut down or sharply curtailed their output. Railroad earnings have been lowered in some cases to and beyond the vanishing point. Work resumption under the provisions of the Taft-Hartley Act can hardly be expected to bring steel back to full production much before the year-end.

Under the circumstances, it is not surprising that the prospect of a severe credit squeeze before the year-end was considerably lessened and that opinion veered to the idea that the market for fixed income securities perhaps passed its low point in mid-September.

Certainly during recent weeks the market for Government securities has seemed to get the benefit of more favorable than unfavorable developments.

Market Has Its Better Moments

Continuing the price improvement which had been recorded in the last two weeks of September, quotations for the intermediate and long-term Government issues rose further in the first three weeks of October. At that point some of the longer-term bonds had risen 3 or 4 points above the September lows. Subsequently, however, prices had a tendency to weaken again. For the month of October quotations for most of the longer-term bonds rose between 1 and 1⅝%, with most of the issues of intermediate term showing rises in the ⅜ to ⅞ range.

But the market was never broad. Day-to-day changes in price merely reflected transactions in individual issues in what was actually a narrow market. The longer bonds were in scant supply. Except for the usual heavy turnover in Treasury bills and early maturing issues and a minor amount of exchanges of one issue for another by banks for tax purposes, there was actually no evidence of accumulation or of new purchases.

To sum up the market action, it looks as if the markup in prices was more the result of a belief that September had seen the low for 1959 than any real expectation that much further improvement could be looked for. The improvement might possibly be only temporary.

The "Magic 5s" and $2-billion TA Bills

For a while the market got a shot in the arm from the rather astonishing results of the sale of $2,307,000,000 of the 5% notes 8/15/64.

What these results were can be seen from the tabulation on page 14.

That $941,000,000 of the notes should have been taken by those whose subscriptions were $25,000 or less, paid for in full and therefore allotted in full, was much more than had been expected. However, there is no doubt that the funds used to make these subscriptions were, to a very large extent, derived from other forms of savings such as redemption of Savings Bonds, withdrawals from savings accounts, and from time deposits. It is doubtful that more than a very minor amount of these purchases represented funds not previously invested.

In the market the 5% notes reached a high of 101¼ and early in November were still selling at 101.

The offering for cash of $2-billion of tax anticipation bills due on June 22, 1960, was taken at an average cost of about 4.783%, which was

(CONTINUED ON PAGE 14)

Outlook

It will be some months before any definite conclusions can be reached as to the trend of prices for fixed income securities.

A year-end renewal of demand for loans would again tend to increase the cost of credit.

There is little likelihood that the monetary authorities will alter their present restrictive policies.

For a while the market may vacillate between the September lows and the recent highs.

However, the longer-term outlook still points to further credit restriction once business volume picks up after strikes are settled. Already there is talk of a rise in the rate for "prime" bank loans.

As yet there is no evidence that for a considerable period there will be any increase in the supply of investment funds available to purchase Government securities.

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(CONTINUED FROM PAGE 12)

slightly less than had been anticipated.

November Refinancing

The Treasury sprang a slight surprise in connection with the refinancing of the November 15 maturities of \$7.7-billion 3⅜% certificates and \$1,184,000,000 of the 3¼% notes.

The exchange offering consisted of 1-year 4¾% certificates 11/15/60 and 4⅞% notes due on 11/15/63. However, the exchange to 4⅞% notes was extended to holders of the \$2-billion 4% notes 8/15/62/60 as holders of these notes had the right to demand payment at 100 on February 15, 1960, on three months' advance notice to the Treasury.

In the "when issued" market for the new offerings, the 4% notes 62/60—which had been selling below 100—rose at first to a premium of three or four thirty-seconds, but it quickly became evident that many holders of these notes were not willing to extend their maturities and were taking advantage of the premium to sell out. As a result, the premium pretty well disappeared until the dealers were able to find other buyers. However, since the yield on the new 4⅞% notes was better than that available from already outstanding issues of comparable maturities, there was enough demand to absorb the volume of offerings.

The final result of the exchange was that (1) the Federal Reserve banks took \$5-billion of the 4¾% notes 11/15/60; (2) of the publicly held \$3,894,000,000 of the maturing notes and certificates, \$2,411,000,000 were exchanged for the new issue; and (3) \$583,000,000 were cashed in on maturity. Holders of \$1,615,000,000 of the 4% notes 62/60 accepted the exchange for the new 4⅞% notes 11/15/63 leaving \$385,000,000 unexchanged to be cashed in next February or held to maturity.

By November 6 the market for the new 4⅞% notes was 100 2/32-100 6/32, with the 1-year 4⅜% certificates quoted at 100-100 2/32. As the attrition amounted to only about 15% of the publicly held maturities, the Treasury was said to be well satisfied with the result of the refinancing.

TA bills totaling \$1.5-billion mature on December 15, and the attrition on the refunding and the continuing excess of Savings Bond redemptions over sales must be cared for.

Cost of 3-Month Bills Rises

The record of the weekly sales of Treasury bills during October was as shown in the table on page 15.

The spread between the yield on the 3-month and 6-month bills narrowed as the average cost of the shorter bill rose above 4%. The yield of 4.137% on October 29 was the highest on record.

Although varying from week to week, the demand for bills from other than banking sources continued in large volume.

Estimates have been made that corporate holdings of Treasury bills are now perhaps \$8- to \$10-billion above their prospective tax liabilities, so the likelihood of corporate disinvestment of bills seems to be very slight.

Since June 30, 1958, corporations have increased their holdings of short-term Government obligations (chiefly bills) by perhaps \$9- to \$10-billion and miscellaneous investors by about \$6-billion. On the other hand, banks have reduced their holdings by over \$5-billion.

Open Market Committee

From September 30 to October 28 the Open Market Committee made very little change in the Government portfolio of the Federal Reserve

Results of Sale of 5% Notes

Subscriptions from	*Amount Subscribed For*	*% Subscription Allotted*	*Amount Allotted*
Savings-type investors	\$1,361,000,000	45%	\$618,000,000
Commercial banks	6,390,000,000	8%	511,000,000
100% deposit	941,000,000	100%	941,000,000
All other	2,433,000,000	5%	137,000,000
Government investment accounts			100,000,000
TOTAL	\$11,125,000,000		\$2,307,000,000

Weekly Sales of Treasury Bills

Offered on	*3 months Amount*	*3 months Average Cost*	*6 months Amount*	*6 months Average Cost*	*Yield Spread*
Oct. 1	$1.2-billion	4.007%	$400,000,000	4.678%	.67%
Oct. 6	1.2-billion	4.262%	400,000,000	4.666%	.40%
Oct. 15	1-billion	4.099%	400,000,000	4.490%	.39%
Oct. 22	1-billion	4.022%	400,000,000	4.499%	.47%
Oct. 29	1-billion	4.137%	400,000,000	4.437%	.30%
Average for period		4.125%		4.55%	
Average for previous period		4.04%		4.68%	

banks, but in the week ending November 4 the OMC did add about $250,000,000 of repurchase agreements.

However, it is interesting to note that the gold stock increased during the month by about $94,000,000, reversing the declining trend in previous weeks.

Negative bank reserves averaged about $458,000,000 for the month, confirming the view that the objective of the Open Market Committee was to keep "negative reserves" around the $500,000,000 mark.

Bank Loans Rise Moderately

The total of the commercial, industrial, and agricultural loans of the reporting member banks rose a little less than $150,000,000 from September 23 to October 28. Real estate and "other" loans were up $170,000,000.

During this period the Government holdings of these banks dropped $164,000,000, while "other" securities (chiefly tax-free) were down $178,000,000.

It is quite clear that any real increase in the demand for loans during the balance of 1959 will force the banks further to liquidate their security portfolios. Such a demand seems very probable now that the steel workers have gone back to their jobs.

The Consumer Credit Situation Today

I THINK it is important to recognize that there has been a very sharp increase in consumer credit extensions in the very last few months. In fact, if you will take the rate at which it has been extended at the last two or three months and put it at an annual rate basis, it would actually be more than the 1955 credit expansion, so I would say if there is something on the economic horizon that it is worth watching closely in the banking community, it is in this area of consumer credit, and I will have just a remark or two to make on that before I conclude in reference to policy matters. . . .

I have a feeling, myself, that we got into a bit of trouble in the middle 1950's because of a too rapid expansion of purchases in certain consumer durable lines. There was a little tendency to do not just one year's business in one year, but two years' or maybe three years' business in one year. . . .

I can tell you one thing that I have learned from my short experience, and that is that it is an awful lot better to take the thing a year at a time, and I, for one, hope that we do not get involved this year or next year in a great splurge of consumer expenditure propelled by credit expansion.—RAYMOND J. SAULNIER, Chairman of Economic Advisers, Washington, D. C.

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THE INVESTMENT MARKETS

H. EUGENE DICKHUTH

AUTHORITATIVE estimates are now that next year's interest on the public debt will exceed \$9-billion. This applies against an indebtedness of \$291-billion. It averages about 3⅛%.

Meanwhile, the demand for funds is heavy from all segments of the markets. There has been a sharp increase in public offerings of public utility securities. The utility industry is subject to many developments, including increase in population, use of appliances, and increased application of air-conditioning and television, which consume considerable electric current.

Utilities Are a Feature

Thus, utilities issues continue to be a feature of the investment markets and probably will be for some time to come. In October, \$256,000,000 in bonds of this industrial category were offered, which was the largest for any month since June 1958. The figure for September was only \$48,000,000.

The tax-exempt market, as usual, dominated trading. New state and municipal issues offered in October amounted to more than \$660,000,000, compared with \$578,000,000 in October 1958. Both figures include housing bonds. The second largest group, utilities, was followed by the Federal Home Loan banks, which are the regional central banks of the savings and loan associations.

Underwriters did quite well in the first 10 months of the year. New bond offerings stood at \$14,624,570,000, covering 1,751 flotations. This is just slightly lower than the comparable figures of last year, which were \$15,408,195,000 for 2,059 issues. Housing issues so far this year were also about equal. They amounted to \$1,925,476,000, against \$1,926,854,000 in the like 1958 period.

There was a similar showing in new stock issues. Public utilities led the parade, as could be expected, with \$113,600,000 in October, compared with \$54,195,000 in October 1958 and with \$70,648,000 in October 1957. New stock offered in the first 10 months of the year was a little more than \$975,000,000, covering 212 issues. In the first 10 months of 1958, new stock issues amounted to only \$613,000,000 for 77 flotations.

Enthusiasm is lacking in the investment markets at this writing. The effect of the steel strike is very real—the longest steel strike in the history of the country and, perhaps, the most bitter labor-management dispute. At stake is more inflation on one side and higher compensation to take care of the inflation on the other side. It is a grave issue for every saver and every investor in American enterprise, both individual and institutional.

Meanwhile, interest rates are of real importance to both savers and investors. Conventional mortgages across the nation commanded an average of 6.1% on October 1. The rate was 5.9% on July 1 and 5.65% on October 1, 1958, on the authority of the Federal Housing Administration.

Less Money for Mortgage Loans

The boost in interest rates reflects the growing scarcity of money available for mortgage lending. Federal Reserve tight money policy to fight inflation is partly responsible. The general expectation is that the average interest rate on conventional mortgages is still to go higher before reaching its peak.

There are many more millions of people who own their own home and pay their mortgages than there are people who own securities. Yet, shareholder accounts in mutual funds have now reached 4,100,000. This includes over a million people who buy investment company shares regularly on a monthly, quarterly, or yearly schedule.

Shareholder accounts in mutual funds reached 4,151,695 at the end of September. This compares with 4,019,445 on June 30 and with 3,518,066 on September 30, 1958. Stockholders in closed-end investment companies totaled 276,683 on September 30, against 274,640 on June 30 and 259,196 in September 1958.

While investment companies play a relatively small part in the day-to-day operations of the investment markets, they enable savers to cope with inflation and to diversify their investments as the great fortunes of yesteryear did in the last century. Steel may be off, but chemicals and rubbers are doing fine. The auto industry may be losing one year, but there is a gain for the air lines.

Words of Praise for FNMA

Returning briefly to the mortgage market, which is an important segment of the investment markets, a word of praise may be due to the Federal National Mortgage Association. The association was organized in 1938 to provide a secondary market for mortgages. Such a market was envisaged as a facility to which sellers of home loans might turn when no other buyers would be available.

At one time, FNMA held as much as \$3-billion in mortgages and its reputation as an eager buyer was not the best among mortgage and real estate people. In 1954, FNMA was reorganized by the Congress and again emphasis was placed on its role as an emergency agency to buy unsalable loans.

The agency is partly financed by the U. S. Treasury but largely by private capital. It is the only Government agency with outstanding common shares in the hands of the public. Despite all its handicaps, the agency has made money, as was evidenced by raising of the common dividend twice this year.

FNMA has run its own affairs in a thoroughly businesslike fashion; it has bought and sold mortgages in a non-inflationary manner.


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About People

J. M. PALFRAMAN, First Western Bank and Trust Company, San Francisco, Calif., becomes vice-president.

Common Pleas Judge CHARLES F. CARR, Cleveland, Ohio, becomes vice-president and trust officer, Society National Bank, Cleveland, Ohio.

RALPH W. KIEWIT, director and former president, Peter Kiewit Sons Co., construction company, becomes board chairman, Santa Monica (Calif.) Bank.

J. STONE BAGBY, investment officer, Fidelity-Philadelphia (Pa.) Trust Company, becomes Brigadier General, U. S. Air Force Reserve.

Officers of newly-organized Illinois State Bank of Chicago, set for early 1960 opening, include: JOHN L. JONES, president; BOYD N. EVERETT, vice-president; and GEORGE H. BELL, vice-president and cashier.

ARTHUR V. TOUPIN, assistant trust officer, becomes vice-president at Bank of America's head office in San Francisco.

A. PHILIP SEAVEY, assistant cashier, Northern National Bank, Presque Isle, Maine, retires.

O. J. FAULKNER, vice-president and coordinator of branch operations, Crocker-Anglo National Bank, San Francisco, Calif., retires after 35 years. His duties are assumed by J. W. HUDSPETH, vice-president.

United States Treasurer Models a Few "Treasures"

"Just about now, I'd like to be a sleight-of-hand performer," remarked Ivy Baker Priest, Treasurer of the United States, as she tried on a few of the "treasures" featured in Diebold, Incorporated's, million-dollar diamond display at the A.B.A. convention in Miami. The diamond display, which included a wide selection of rings, clips, and necklaces, was brought to Miami Beach by Zale Jewelers of Dallas for Diebold's commemoration of its 100th Anniversary. Pictured above, *left to right*, are Fred Greene of the Zale Jewelry Company; Mrs. Priest, who is trying on a diamond pin; J. F. McCarthy, who is assistant sales manager, bank division, Diebold, Inc.; and Raymond Koontz, president, Diebold, Inc.

IBA Nominee Dies

JOHN C. HAGAN, JR., who was announced in these pages last month as nominee-tantamount-to-election to the presidency of the Investment Bankers Association of America, died suddenly in New York last month. MR. HAGAN, president and director of Mason-Hagan, Inc., Richmond, Va., was in New York to attend a testimonial dinner to be given in his honor. He was 60 years of age.

STANLEY A. TAYLOR, president, Florida Bank and Trust Company, becomes president, Daytona Beach Chamber of Commerce.

EDMUND F. ECKERT becomes vice-president and cashier, and JACK M. COPELAND becomes vice-president, newly-organized Airport Bank of Miami, Fla.

E. L. CANNAN, from assistant vice-president to vice-president, Houston, Tex., National Bank.

GEORGE E. BECKER, JAMES H. HARRIS, both become vice-presidents, Chase Manhattan Bank, New York.

FRANCIS A. FLORIN, deputy superintendent of banks, New York State Banking Department, retires after 30 years in banking.

ROBERT R. WILLIAMS, president, Bradford (Pa.) National Bank, is named chairman of the newly-appointed City Planning Commission in Bradford.

T. E. SEBRELL, JR., president, Clarendon Trust Company, Arlington, Va., retires on his 72nd birthday, marking his 38th year as chief executive officer of the bank.

J. M. MINER, from secretary,

street

of the staff of **BANKING**

Entire Town Gifted With B of A Stock

WIDE WORLD PHOTOS

Director of Bank of America for Italy, Aurelio Gandini, shows a BofA share to San Marco d'Urri villagers. At his *left*, wearing a sash, is Mayor Eraldo De Martini; at his *right*, the Reverend Raffaele Ferretti

"THE most beautiful banking operation in my 37 years of banking," was the way Aurelio Gandini, director of Bank of America for Italy, described the gift of $340,000 worth of bank stock to the 284 inhabitants of San Marco d'Urri, a remote and poor mountain village in Italy.

Joseph and Victor Saturno, sons of a village orphan who had come to the United States and made good, had never seen the little town that was their father's birthplace. But on the 100th anniversary of his birth, they decided to do something for San Marco d'Urri. They decided to give each resident 25 shares of Bank of America stock—a gift worth about $1,200 at today's market values, paying a current dividend of about $45 a year—enough to meet the meager needs of many of these people for at least several months each year.

Fidelity - Philadelphia (Pa.) Trust Company, to vice-president.

JAMES R. OFFIELD, director of William Wrigley Jr. Co., who was one of the founding directors of National Boulevard Bank of Chicago, is once again named a director of that bank. WRIGLEY OFFIELD, advertising manager of Wm. Wrigley, Jr., Company, also becomes a director.

STUART W. DON, WILFRED D. WICKENDEN, both become vice-presidents, Chemical Bank New York Trust Company, New York City.

WILLIAM S. VAUGHN, vice-president and general manager, Eastman Kodak Company, becomes trustee, of the Rochester (N. Y.) Savings Bank.

NORMAN C. SCOTT, vice-president and trust officer, Mountain National Bank, Clifton Forge, Va., becomes executive vice-president and trust officer.

Prominent California Banker Dies

OSCAR MENNENGA, executive manager of the California Bankers Association, passed away in mid-October after a short illness. He was president of the State Association Section of the American Bankers Association in 1955-56. From 1926-41, MR. MENNENGA was with the Federal Reserve Bank of San Francisco.

EDMOND M. COOK, counsel for the firm of Cook Clair Balluff Wedean & Nagle of Davenport, and president of the John Deere Foundation, becomes president of the Moline (Ill.) National Bank, succeeding ELLWOOD F. CURTIS, who is executive vice-president and chief financial officer of Deere & Co. ROY E. NEUHAUS, assistant cashier, retires from the bank.

HAROLD M. SHERMAN, JR., becomes a senior vice-president at Morgan Guaranty Trust Company of New York.

JAMES A. CLARK and ALFRED S. OLMSTEAD join Empire Trust Company, New York City, as vice-presidents.

EDMUND D. O'CONNELL, recently-retired executive vice-president of Mutual National Bank of Chicago, returns at the bank's request to serve on its staff in a public relations capacity.

WILLIAM E. GLOVER succeeds CHARLES P. PENDLETON as executive vice-president and treasurer at Thomaston (Conn.) Savings Bank. MR. PENDLETON retires after 18 years of service.

G. RONALD INCE and J. DONALD MULVEY both become vice-presidents at Bankers Trust Company, New York.

FREDD T. O'DONNELL becomes comptroller and chief personnel officer, Wilmington (Del.) Savings Fund Society.

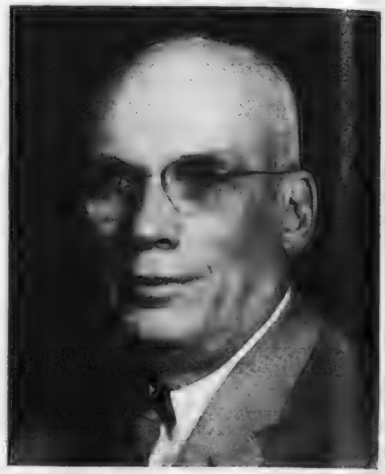
JOHN D. DUPUIS, from vice-president, Pittsburgh (Pa.) National Bank to vice-president, Fifth Third Union Trust Company of Cincinnati, Ohio.

WILLIAM C. WAY, vice-president, retires from Central National Bank of Cleveland, Ohio.

JOHN E. BEEBE and ROBERT B. RIVEL both become vice-presidents at Chase Manhattan Bank, New York City.

LOUIS I. SMOLER, from vice-president, Peoples National Bank of Chicago, to executive vice - president, Associated Loan Counselors, Chicago.

State Association President 1959-60



IOWA: R. R. Schroeder, executive vice-president, Iowa County Savings Bank, Marengo, Ia.

JOHN B. SCHOENFELD, from vice-president, L. F. Dommerich & Co., Inc., New York to vice-president, Trade Bank and Trust Company, also New York.

HERMAN F. GROSS, president, retires from State Bank & Trust Company, Ann Arbor, Michigan. He is succeeded by Edward Adams, Jr.

J. HARRISON HOPKINS and GORDON B. TRULOCK, JR., both become vice-presidents at Citizens & Southern National Bank, Atlanta, Ga.

JAMES L. RIEGER becomes president, Mercantile Bank and Trust Company, Kansas City, Mo., succeeding his father NATHAN RIEGER, who becomes board chairman.

EDWARD ADAMS, JR., resigns as senior vice-president, National Bank of Detroit, Mich.

JOHN D. SWINNEY, from controller to vice-president, United States National Bank of San Diego, Calif.

KENDRICK J. SMITH, from assistant vice-president and branch manager, Lincoln Rochester (N. Y.) Trust Company, to vice-president and regional officer.

FRANCIS E. CURRAN becomes vice-president at Chase Manhattan Bank, New York.

(CONTINUED ON PAGE 24)

While you're tying up the tag ends on Christmas Eve

...we'll be doing the same. Wondering, in our homes, too, how it got to be midnight so soon. Little sleep *this* night. Yet, come morning, we'll be as wide awake as the youngsters. The excitement of Christmas is ageless. The four thousand people of the

Continental Illinois National Bank and Trust Company of Chicago

hope you have the happiest of Christmas Days.

Member F. D. I. C.

(CONTINUED FROM PAGE 22)

MICHEL T. HALBOUTY, geologist and petroleum engineer, becomes board chairman at Continental Bank and Trust Company, Chicago, Ill.

CHARLES W. BUEK, from executive vice-president to first vice-president and board member, United States Trust Company of New York.

LEROY G. PEARSON becomes senior vice-president and cashier, Farmers Bank of the State of Delaware, Dover.

WILLIAM P. SLAYTON becomes vice-president, THOMAS M. MELTON becomes assistant cashier, at First National Bank of Memphis, Tenn.

SPENCER A. MURPHY becomes vice-president at the Bishop National Bank, and heads the new San Francisco office of the Hawaii-based bank.

WILLIAM L. MAUDE, manager and president, Howard Savings Institution, becomes director, National Newark and Essex Banking Company, Newark, N. J.

Reorganizes Bank in '33, And She's Still Going Strong

AT the age of 83, MRS. MARY A. WOOLDRIK puts in a full work week as executive vice-president of the State Bank in Sleepy Eye, Minn., and she has no plans to retire.

"What would I do at home?" she asks with a smile.

Her husband, John, is president of the bank but spends most of his working time with the car dealership he operates with their son George. The three Wooldriks are all directors of the bank.

MRS. WOOLDRIK, who has been a teacher, advertising director, and housewife, was taking A.I.B. courses at age 74. During the 1933 bank closings, Mr. WOOLDRIK was approached to take over and reorganize a bank. When he declined, MRS. WOOLDRIK asked if she might do it and has been a banker ever since.

"I don't have to work, of course," MRS. WOOLDRIK says, "but I love banking."

Former A.B.A. President Now Heads Columbus Bank

Everett D. Reese

EVERETT D. REESE, 1953-54 president of the American Bankers Association, has been named board chairman of City National Bank and Trust Company, Columbus, Ohio. MR. REESE, who has also been president of the Ohio Bankers Association, is presently chairman of Park National Bank, Newark, Ohio, and of First National Bank, Cambridge, Ohio. He at one time had the distinction of being the youngest bank president in the United States and has served on the faculties of several universities, including Ohio State, Georgia Tech, and Denison, and is chairman of the Board of Regents of The Stonier Graduate School of Banking at Rutgers University. He also is chairman of the Council on Banking Education, A.B.A.

GREGORY W. MAXWELL, president, Terminal Railroad Association, becomes director, Boatmen's National Bank of St. Louis, Mo.

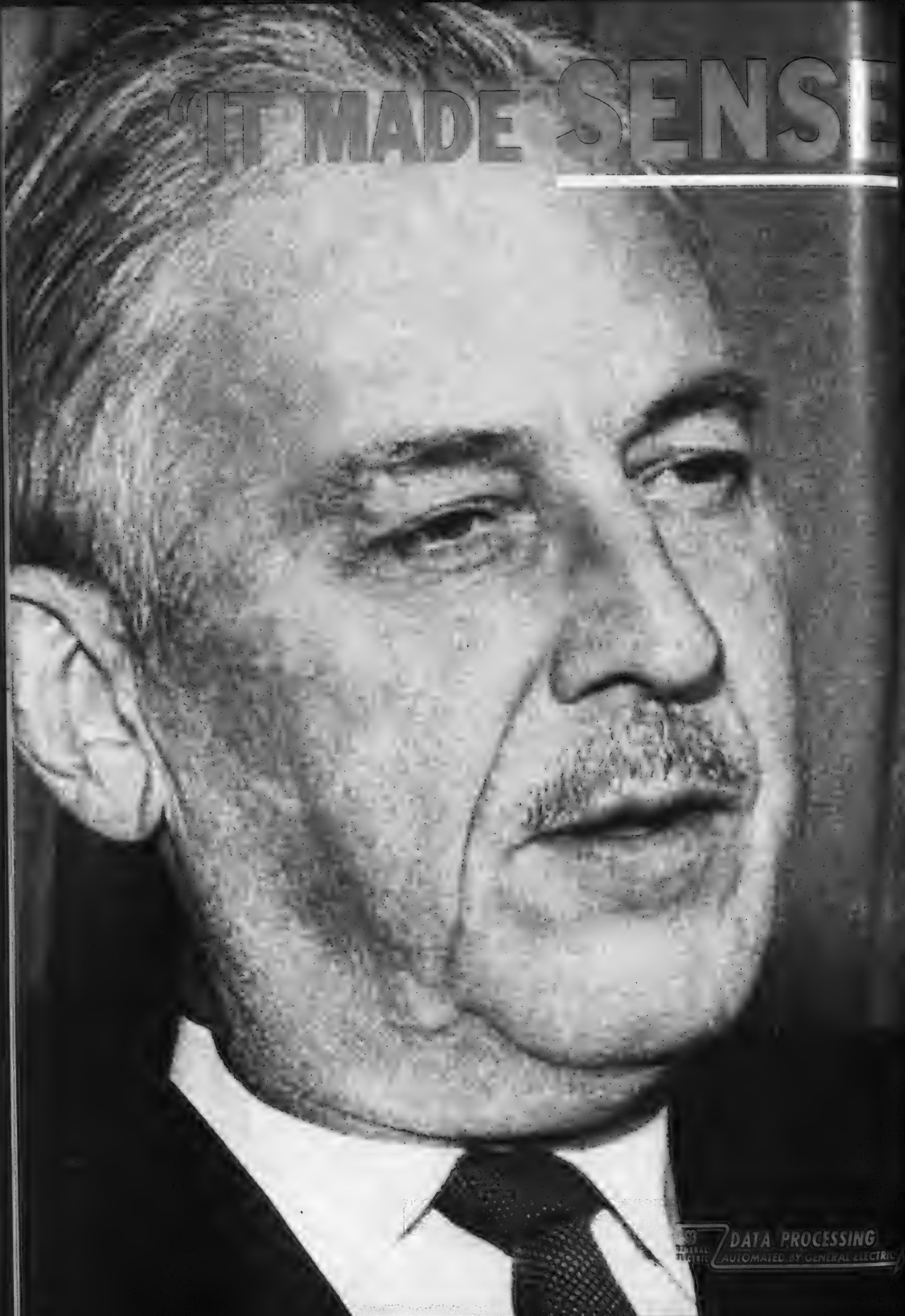
JOHN B. JESSUP, chairman, Bank of Delaware, Wilmington, retires after more than 30 years in banking.

H. MILLER LAWDER, newly-appointed senior vice-president, Irving Trust Company, New York, had been named chairman of the banking division of the Muscular Dystrophy Association of America, Inc.

THOMAS C. VANDIVER, T. C. CLEVELAND, JR., and JOHN W. HYDE, all regional vice-presidents, become senior vice-presidents at South Carolina National Bank of Charleston. R. P. EDMUNDS, JR., NOLAN P. SHULER, JR., both vice-presidents become senior vice-presidents.

JOHN E. WHITMORE, senior vice-president, National Bank of Commerce, Houston, Tex., becomes director at Reagan State Bank, also in Houston.

(CONTINUED ON PAGE 28)

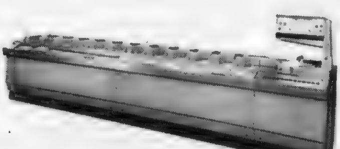

"IT MADE SENSE
DATA PROCESSING
AUTOMATED BY GENERAL ELECTRIC

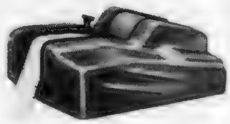
TO CHOOSE THE GE MAGNETIC INK AUTOMATED BANKING SYSTEM…”

Kenneth K. Du Vall, President, Merchandise National Bank of Chicago, tells why his bank selected the GE 210 System.

“The process of selecting the proper automated banking system required years at Merchandise National Bank of Chicago. After studying many other type systems of automated banking, Merchandise chose the GE 210 MICR System (Magnetic Ink Character Reading method). Says Mr. Du Vall: “We cannot help but feel that ultimately the MICR method will be the accepted system for high-speed electronic data processing for all banks handling any volume of paperwork accounting.”

ELECTRONIC BANK AUTOMATION—FIRST IN ILLINOIS





“Our GE 210 will read and sort tens of thousands of magnetic ink printed checks or deposit media per hour. The increasing volume of checks and the bookkeeping operations involved in their processing makes the speed, accuracy and reliability of the GE 210 invaluable to efficient banking operations . . .

“Various sizes of checks, randomly stacked—even soiled, crumpled or otherwise disfigured—can be read and sorted by GE Magnetic Ink Character Reading method. Magnetized numerals are in stylized Arabic (GE designed and ABA approved), and can be read both visually and electronically . . .

“The 210 Central Processor—heart of the system—debits or credits each account, rejecting overdrafts and incorrect information. With the GE 210 MICR System, we can sort and post hundreds of thousands of accounts daily. And this tremendous volume of account handling requires a staff of only a few people . . .

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CPA-25 (11-59)

(CONTINUED FROM PAGE 25)

About Banks

BANK OF HAWAII opens offices on both Midway and Kwajalein islands.

CITIZENS AND SOUTHERN NATIONAL BANK, Atlanta, Ga., wins first place among national banks in annual report contest held yearly by *Financial World*. WISCONSIN BANKSHARES CORPORATION, Milwaukee, wins the award for its field.

FIRST NATIONAL CITY BANK OF NEW YORK opens its 81st branch, located in the Borough of Queens.

NEW MEXICO BANK AND TRUST COMPANY, Hobbs, N. M., opens a new office in Lovington.

BIRMINGHAM (Ala.) TRUST NATIONAL BANK opens its 7th office. Location: Vestavia.

MANUFACTURERS' NATIONAL BANK OF DETROIT opens new Dearborn office.

(CONTINUED ON PAGE 30)

Old Banknotes Reprinted On Anniversary Souvenir

In celebration of its 125th anniversary year, The National Bank and Trust Company of Fairfield County, Conn. mailed out a "souvenir"—a car-sized roadmap of Fairfield County, backed with information about the bank's branches and these replicas of banknotes issued by its progenitor, The Stamford Bank

(CONTINUED FROM PAGE 28)

20 Indian Tribes Attend VNB Workshop

A $5-BILLION workshop, for leaders of 20 Southwest Indian tribes holding vast properties in Arizona and three bordering states, was held in Phoenix under the sponsorship of VALLEY NATIONAL BANK early last month

The $5-billion "is a conservative estimate of potential income realizable from reservation resources in Arizona, New Mexico, Colorado, and California in the next decade," according to Thomas S. Shiya, the bank's general chairman for the conference. Tribal leaders held candid, over-the-table discussions with recognized non-Indian business leaders in the fields in which the tribes have business interests—including farming timber, mining, livestock, tourism, and recreation.

Keynoting the workshop was Walter R. Bimson, the bank's board chairman, a long-time authority on Indian affairs. Mr. Bimson in 1952 headed an Interior Department survey team which precipitated sweeping changes in the Bureau of Indian Affairs' operations after examining all phases of the Government's relationship with its Indian wards.

Merger pending: THE ROMULUS STATE BANK into MANUFACTURERS NATIONAL BANK OF DETROIT, Mich.

NATIONAL BANK AND TRUST COMPANY of Fairfield County, Conn., opens its new Ridgefield office.

Israel Bank Opens New York Agency

BANK LEUMI-LE-ISRAEL B.M. (National Bank of Israel, Ltd.), Israel's largest and oldest bank, has opened a New York City agency with Gideon Strauss as agent. The bank, established in 1902 as the Anglo-Palestine Company, has been operating under its present name since 1951. Consolidated assets exceed $320,000,000. It holds approximately a third of Israel's commercial bank deposits. Dr. Y. Foerder is chairman of the board.

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BANKING

DECEMBER 1959

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

The OUTLOOK and CONDITION OF BUSINESS

Present business prospects are moderately good, but moderately is not good enough today.

Some difficult questions remain to be answered before we can look ahead with full confidence. The questions are clear and obvious but not the answers.

Can't Afford a Re-run of '59

THE year now closing has been a moderately good one, but we could not afford to repeat it. Historically speaking, all recent years have been fairly satisfactory from a business standpoint, but this is no time to be speaking or thinking historically.

Looking toward 1960 we see four major changes taking shape. They could almost be called changes in our way of life—our way with labor relations, with monetary policy, with taxation, and with foreign trade and aid.

The course of action we choose on all of the matters next year will stem from what happened this year.

It is becoming increasingly obvious that we cannot go on as we are and keep our position of world leadership. This is perhaps the best reason for assuming that we shall choose the right answers and for optimism generally.

We are beginning to see that if we don't soon mend some of the flaws in our free wheeling economy it will not perform the miracles of progress that we claim for it.

We are being challenged by both the Communist world and our free world competitors, but it is the Communist challenge that concerns us most.

We know that we can out-produce the Communist system, but can we continue to do it if a few persons around a table can stop vital production and services, if others can make a political game out of monetary policy, use taxation to discourage technological progress, and insist on playing Santa Claus until the world loses confidence in the dollar?

Many of the factors which will shape the immediate future are unpredictable, but the answers to the four items just mentioned are mainly in our own hands. If we choose wrongly we can't blame the Communists for that.

Comparisons of the United States and Soviet economies have been the subject of some monumental studies lately, but the conflicting end-opinions have produced confusion that is equally monumental. Regardless of the reliability of Communists' statistics, if they are convincing enough to disturb us, Moscow will be doing us a great favor.

We did Communism a good propaganda turn by honoring their chief and raising the prestige of his ruthless political idea to a worldwide, all-time high. Now if they conjure up enough statistics to destroy our natural complacency, that will help us. If it's trade they want we might even barter some of our machinery for a few of the men who designed their moon rocket. Cultural exchanges are a different matter. We might consider giving them our abstract art, our obscene books and movies, our rock 'n roll, and modern musicians on condition they keep them. All we would ask in return would be their ballet and a reasonable amount of caviar.

Labor Relations

Our first hopeful assumption is that a major shift in public opinion is in progress which will force action designed to prevent nationwide and industrywide stoppage of production of basic goods and services. This kind of anarchy does not fit into the world picture today unless we are willing to become a second class power.

The steel and other large strikes will leave deep scars and will also leave unanswered the basic question whether we can afford such losses and maintain our position of industrial leadership. Encouraging signs abound, in the press and on the platform that the danger is becoming clear to an ever-larger segment of opinion.

But for the steel and copper strikes our gross na-

tional product would have reached an annual rate of $500-billion this year. True, the rebound will be sharp, in order to catch up with demand, but it will be six months before all users have adequate supplies and two years before the industry's wage earners regain their losses.

Forecasts now generally agree that the GNP will fall short of an annual rate of $490-billion for this last quarter and will not reach the half trillion rate until the middle of next year. Dr. Saulnier, chairman of the President's economic advisers, said that no major strike had ever altered the course of the economy, but many feel that if a rail strike and others were piled on top the chairman might have occasion to change his story.

The basic issue in all labor disputes is not so much the level of wages as the working rules which prevent or slow down technological progress. Featherbedding or the threat of featherbedding are as great a roadblock to increasing productivity as the tax rules on depreciation, which will be mentioned again further on.

The two most recent in a series of studies on employment, growth, and price levels, prepared for the Joint Economic Committee of Congress, had this to say about the steel wage disputes:

"The effect of rising steel prices in the last decade was strongly inflationary. The extraordinary increase in steel prices was found to have accounted for 40% of the rise in wholesale prices in the period 1947 through 1958. If steel prices had behaved as the average of other prices in the Wholesale Price Index, the latter would have risen 40% less than it did. The prices of finished goods at wholesale were affected almost as greatly. If steel prices had behaved as other prices, finished goods prices would have risen by 38% less than they did.

"Since 1951, when wholesale prices reached their post-Korean peak, steel prices have moved up much more rapidly than other prices. If steel prices had moved as other prices since then, the Wholesale Price Index would now be below its value for 1951."

The report cited these four factors as mainly responsible for the increase in steel prices:

"(1) An extraordinary rise in wages, which is the result of bargaining between a strong union and a management with strong market power in the product market. Government intervention has probably accelerated this process.

"(2) A conscious effort to maintain and perhaps increase profit margins in the industry, giving the steel companies at the least a proportionate share of the income gains scored at the expense of the rest of the economy.

"(3) A rapid increase in the costs of replacing facilities and providing additional capacity together with management's attempt to raise the required funds for the desired expansion through internal financing.

"(4) A state of demand which, while not strong enough to account for the exceptional price and wage rises, nevertheless was strong and inelastic enough to permit these increases to occur without immediate and telling decline in the demand for steel."

Money Supply

Our second hopeful assumption that augurs well for the future is that there is better understanding of the role of interest rates in assuring that the money supply will be adequate for any expected expansion in business. Money is tight and commercial bank liquidity has been declining for several years but if interest rates are allowed to seek their own level this is the only way we can be sure of an ample supply of savings and investment money.

The chances are that economy will be the Congressional watchword, and the Treasury borrowings will offer less competition to business in the money markets. The Federal debt today is about $290-billion and the interest rate will be a matter of concern to Congress, but much has happened since Congress whimsically refused to remove the long-term ceiling of 4¼% on Government bonds. The odds are in favor of the ceiling being removed by the forthcoming session.

The effect of such action would be felt throughout the nation's monetary system in permitting the Government to finance itself in a noninflationary way. There is a good prospect of a balanced budget this fiscal year and, more important, a possible budgetary surplus the following year. The Treasury would then be supplying funds to the credit market and adding to the flow of savings available for investment.

Business profits are an increasingly important source of funds for expansion. So are the savings accumulating in mutual funds, insurance companies, mutual savings banks, savings and loan associations, and credit unions.

The money supply has usually been measured by the liquidity ratio of commercial banks. Fourteen years ago, at the end of World War II, this ratio of loans to deposits was at a peak of 83%. Since then it has dropped steadily to about 46%, with no immediate prospect of a change in the downward trend.

Liquidity and the adequacy of the money supply cannot be accurately measured today by these percentages. Today's financial machinery and customs provide new sources and permit faster and more efficient use of money.

Plenty of Small Business Loans

Much has been said about the plight of small business under tight money conditions. The Small Business Credit Commission of the A.B.A. checked a sample of 100 representative banks and found that they were moderately increasing their loans to concerns with assets under $50,000. The report emphasized that 10,000 of the nation's banks were themselves small businesses so that their business loans were all in the small category.

Chairman Carl Flora points out that large corporations are prime sources of credit for small business. "Large corporations," he said, "borrow more heavily than small firms, but the chief reason they do so is to serve the small concerns who are their customers."

Taxation

A third hopeful assumption concerns taxation.

Even Khrushchev is reported to have told President Eisenhower that our taxes kill incentive and discourage business growth.

We are at a stage of the recovery cycle where a

(CONTINUED ON PAGE 152)

Washington

Mainly About Money and Inflation

THOMAS W. MILES

MONEY is the talk of the town, official and unofficial, here in Washington. Today's great monetary debate harks back to the days of William Jennings Bryan. Only the times and modes of expression have changed; the issue is the same: hard money versus easy money.

Lacking is such colorful oratory as Bryan's famous "Cross of Gold" speech. Which is not surprising. This is the day of popular economics. The jargon of the economists is the language of the debate.

The winning side will be that which can convey to the country the cogency and urgency of its case most clearly, whether it be through the jargon or despite it. Simple exposition may turn the tide.

The Educational Phase

This is the educational phase, with each side beaming its material to the public. In this phase the Administration has the better fighting position. It has respected and responsible leaders in the Executive agencies to plead its cause and the official information outlets of those agencies to document its case. It needs every bit of the advantage because the rigorous remedy of self-discipline that it is advocating is much more difficult to understand and to sell.

The other side does not have these facilities. In another month, however, with the return of the 86th Congress for its second session, the opposition will have the best of all sounding boards, the hearing rooms and chambers of Congress. But, here again, their use will not be exclusive with the opposition.

It is on behalf of sound currency and against threatening inflationary pressures that the Administration is fighting. The opposition is against inflation, too. But the liberals who dominate it do not consider inflation a serious threat now. In their opinion expanding national needs and opportunities require some inflation every year. The Federal Government is not spending nearly as much to develop the economic potential of the country as they think it should.

The Administration and a conservative coalition of Democrats and Republicans won the first round in the last session of Congress, not so much in legislative accomplishments, perhaps, as in what they stopped. They prevented many of the schemes for spending Federal funds from coming to pass. They rallied the country against the cost-push of labor. But the Administration lost one important battle, it did not win the freedom it sought to manage the national debt. Congress refused to lift the statutory 4¼% ceiling on 5-year-and-over bonds.

In the interval since adjournment the Administration has concentrated on building better public understanding of what must be done in both the public and private sectors to counter inflation. It is selling a program for growth and price stability rather than one of being merely against inflation. But in the doing it is fighting inflation—very much so.

This is especially evident in the short informative statements being issued by the President's Cabinet Committee on Price Stability for Economic Growth. This is the committee that is headed by Vice-president Nixon. It is doing the practical job of building support through understanding. A recent statement by the Cabinet committee on "Managing Our Money, Our Budget, and Our Debt" avoids even the word inflation, which Senator Paul H. Douglas, chairman of the Joint Economic Committee, puts in the category of "scare talk." The word inflation is used adjectivally. Back on the next-to-last page short-term debt is described as "inflationary." Everything in this public forum, of course, has political overtones, but the Cabinet committee's statements describe and explain rather than label and blast.

There will be other statements and possibly public hearings. These will be followed by definite recommendations which will be embodied in a legislative program to be submitted early in the session. The Cabinet committee's statements, published in pamphlet form, can be obtained by writing to the Superintendent of Documents, Government Printing Office, Washington 25, D. C.

A.B.A. and Other Programs

The American Bankers Association and a number of business and other organizations are carrying on their own campaigns for sound money and economic stability. The A.B.A. set up a Committee for Economic Growth Without Inflation last summer to promote understanding among not only bankers but also the vast community that bankers influence. The first of this A.B.A. committee's publications is a vest-pocket pamphlet which treats inflation,

credit control, and interest rates comprehensively. It will be used here, especially on The Hill.

Representatives of 40 or more national organizations, including the A.B.A., were gathered together recently in a move led by a number of insurance companies to organize a citizens' campaign against inflation, described as a crusade. The President, the Vice-president, and the chairman of the Senate Banking and Currency Committee, Senator A. Willis Robertson, turned out to encourage them. All three talked about the self-disciplines that businessmen and organizations must assume if inflation is to be checked.

President Eisenhower made the point that he is not looking for any particular villain of the piece in plumbing the causes of inflation so much as he is seeking understanding about the moves that can be made to counter it. By this he meant that he was not trying to blame it on any one element, such as the cost-push of labor. It has been gratefully noted here in Administration circles that this has also been the attitude of the A.B.A.'s committee. The A.B.A. has been more interested in finding effective corrective measures than in finding scapegoats.

Planning for Grandchildren

Speaking as he did extemporaneously, the President's gift for getting across to people was nowhere more apparent than in this sentence:

"We must make certain that our growth is a healthy and a real one on the basis of a unit of exchange that stays sound, so that the individual earning his equity in his OASI funds, the individual who goes to the insurance company and buys a policy, the teacher who is on a pension, the people who put money in savings banks, everybody realizes we mean it when we say: We can plan something for our grandchildren that is just as sound and just as stable as what we ourselves have inherited."

The Vice-president lifted the sights of the group to the ultimate objective for sound fiscal policies. He said:

". . . we are not for price stability or controlling inflation as an end in itself, but as a means to an end; as a means to dynamic, sound, economic growth—the kind of growth that will assure that the United States, with its free economy, will out-produce the communist economy of the Soviet Union, or of any potential opponent the United States may have."

Senator Robertson predicted further attempts to peg Government bonds. He declared:

"The effect of this on bringing down interest rates would . . . be temporary at best and meanwhile the system established to protect the integrity of our currency would be converted into an engine of inflation."

Senator Robertson and others in the Congress may well have a major fight on their hands with the efforts of liberals to have the Fed support Government bonds as a means of holding down interest rates. Moves, such as the Metcalf amendment last fall, may be hard to control. The Metcalf amendment was interpreted as Congressional interference in the Fed's open market operations.

Another point cited by Senator Robertson was the possibility of credit and other controls. This was a warning for the record only at this time; Senator Robertson is certainly not an advocate of controls. But it was significant that Senator Robertson felt it necessary to add that warning. It followed closely on other warnings less pointed, but nonetheless real, from Raymond J. Saulnier, chairman of the Council of Economic Advisers, and Governor A. L. Mills, Jr., of the Federal Reserve Board to bankers in Miami Beach.

At this point, however, the prospect of credit controls is dim. For one thing labor is divided. The electrical and auto workers, to name only two elements in labor, are less than enthusiastic. For another the Administration is waiting to see how the self-disciplines work.

Federal Spending: Surplus?

What about the Government's own spending? In the annual *Midyear Review* of the Federal Budget issued by the Budget Bureau a balanced budget was forecast for the 1960 fiscal year. Estimates for both receipts and expenditures were raised by $1.9-billion above the January budget figures to $79-billion and $78.9-billion respectively. Thus the anticipated surplus remains at $100,000,000 in the *Midyear Review.*

The major increases in expenditures above the January budget estimates include $1-billion additional for interest on the public debt; $495,000,000 in the postal deficit, of which $350,000,000 is due to failure to increase postal rates; $245,000,000 in Department of HE&W spending because of the appropriations increase by Congress; $180,000,000 in veterans' programs because of enactment of legislation which was not

The Role of Housing

A.B.A. in Miami

It is widely recognized that residential construction is a key "leading" indicator of economic trends. Historically, it has led over-all production and employment both on downswings and recovery. This is not simply a statistical coincidence. It reflects the far-reaching economic importance of the $15-billion home-building industry. Residential construction provides a market for hundreds of products; and, in recent years, it has provided employment for nearly 3,000,000 men, on site and in the factories. No one interested in the health of our over-all economy can be indifferent to trends in the home-building industry.

I am disturbed because we are now witnessing a slow but steady decline in home building.

In my judgment, the decline is due to tight money. Excessive mortgage discounts are making it extremely difficult for builders to realize a fair profit on their homes, and there is a serious danger that inflated interest rates are beginning to stifle demand. Today the typical family buying a house under FHA has to pay more—far more—for financing than for the house itself. In many parts of the country, home builders are unable to arrange forward financing on reasonable terms. Home builders—like other small business men and small farmers—are the first to suffer the consequences of a restrictive monetary policy.—The Honorable Albert Rains, United States Representative, Gadsden, Ala.

proposed by the President; and $156,000,000 in Department of Agriculture programs.

The revenue increases above the January estimates include upward adjustments of $1,052,000,000 in corporation income taxes, $300,000,000 in individual income taxes, $155,000,000 in excise taxes, and $393,000,000 in all other revenue sources. The steel strike is bound to modify these estimates. A qualified analyst Eugene F. Rinta of the Council of State Chambers of Commerce, estimates that the deficit will be $1-billion or more.

Tax Legislation: Noise, Little Action

On the tax side there will be a lot of noise but little action. The noise will involve the big review that Ways and Means is making of our internal revenue structure, with an eye to starting extensive revision. Ways and Means would like to reduce personal and corporate rates and the estate tax. To do it will mean wiping out many deductions and special tax considerations built into the system over the years.

The hearings which opened November 16 will continue through December 18. After that the staff, working with Treasury, will make recommendations. But it seems highly unlikely that Ways and Means, with elections in the offing, will open this Pandora's box for more than the most pressing adjustments.

Whether the Mason bill, which the A.B.A. is pushing for tax equalization between commercial and mutual banks and savings and loans, will be one of those pressing adjustments to be considered will depend almost wholly on how pressing bankers can make it.

What pressure can do was noted by President Eisenhower himself in his talk to the Citizens Committee, mentioned earlier. He talked about harnessing the emotional strength of people and he recalled how the telegrams, letters, and telephone calls coming in by the millions kept the first session of Congress in line.

Labor, too, seems to be sensitive to public concern about rising costs. Hence its preoccupation in contract negotiations more with fringe benefits than with wage increases. The Kaiser settlement in the steel strike is an illustration of this point. That is the new look in labor-management relations and it is significant because it brings labor closer in with management.

Although labor is back in the steel mills under the Taft-Hartley injunction, the steel strike would appear to be far from settled. The economic consequences are many and far-reaching but not fully appraised at this point. On the other hand history shows that a strike in a major industry has not altered the course of the economy, as Mr. Saulnier told the A.B.A. at Miami Beach.

Management is admittedly taking a hard line. If it does not dare to pass on increased labor costs in prices, then it wants to recover at least part of these costs by increasing the efficiency and productiveness of labor and eliminating wasteful practices. That is really what is at issue today.

Labor is concentrating more and more on white collar workers in its organizing drives. The number of blue shirt workers is decreasing with the higher skills demanded and the development of automation. This is important to banks whose employees would be among the objects of organization.

The A.B.A. was still trying to work out an accommodation with Treasury at this writing in the matter of reporting on interest and dividends paid by banks and savings and loan associations. Treasury wants banks to advise each savings depositor the amount of interest credited to his account every year. Preliminary estimates indicate that to inaugurate this would cost banks at least $6,000,000 the first year.

At Miami Beach the A.B.A. took the position that Treasury should exhaust other means, such as publicity and instruction sheets, before asking banks to provide such an expensive service. If institutions that pay interest and dividends cannot work out an effective voluntary cooperative program, the alternative may be a request for legislation to require these institutions to advise those receiving interest of the amounts paid to them during the year. Such legislation might lead to withholding the taxes on interest and dividend payments. This would be sought by Treasury, however, as a last resort because the costs of administration, adjustment of payments, and so on could reach the point of no return.

A.B.A. in Miami

Our Balance-of-Payments Deficit

Our excess of exports of goods and services over our imports is running at the rate of approximately $3-billion a year. However, we make three large payments abroad: (1) military expenditures of over $3-billion; (2) an outflow of $2-billion of private capital; and (3) United States Government loans, grants, and an outflow of other capital of $2½-billion—making total payments abroad of $7½-billion, or $4½-billion in excess of our income from abroad. This is a substantial deficit.

In 1958, our balance-of-payments deficit was $3.5-billion. This was met largely by a withdrawal of $2.3-billion in gold by foreign nations and an increase of $1.2-billion in the short term assets these nations hold here. These gold withdrawals were the largest in any one year, but they were not large in relation to our total gold holdings of over $20-billion at the time, and they were not a matter for major concern. Furthermore, these withdrawals did strengthen some nations; and in the present world struggle, other areas of economic strength in the Free World are an asset to us. The gold withdrawals so far in 1959 have been less than in 1958, but the balance-of-payments deficit now running at a rate of $4½-billion annually is greater. This deficit may not presently pose an urgent problem, but it is questionable how long such a deficit can continue before we shall have to reduce our expenditures abroad or make other major adjustments.—Herbert V. Prochnow, vice-president, The First National Bank of Chicago.

VERY TAXING

Though my weekly check's not a tidy sum,
What nettles my puzzled dome,
Is what they'll take from my take home pay,
After I've taken it home.

Stephen Schlitzer

BETTER METHODS & SYSTEMS

A Computer's Potential

It may include "audit by exception" and development of previously unavailable data for management

PROPERLY utilized, the electronic computer may be a greater boon to the auditing function than to the general accounting operation for which it was installed, says Edward T. Shipley, comptroller and auditor, Wachovia Bank & Trust Company, Winston-Salem, N. C.

It is possible, he told a meeting of NABAC, The Association for Bank Audit, Control and Operations, that the equipment, by virtue of its tremendous speeds, can develop heretofore unavailable information of interest to management.

"The analysis of trends in deposit accounts by types of industry is one example. The forecasting of loan trends and money positions are others which may well be considered. In these areas, much work can be done which has never been attempted in the past because of a lack of adequate manpower.

Audit Chores

"It seems logical, therefore," Mr. Shipley continued, "that if this equipment can perform the clerical accounting functions at these terrific speeds, the machines can also perform the routine monotonous checking of some phases of the audit program at a similar rate of speed. We should expect that these computers will not only reduce the number of manhours involved in the accounting process, but that similar reductions can be made in the time requirements of audit programs.

"Proper use of the equipment will permit the preparation of trial balances electronically, the computation of ratios and percentages at maximum speeds, and even the preparation and proof of direct verification media, with little or no human intervention.

"The continuous audit of transactions within the loan department can be performed as a by-product of the maintenance of the accrual of income on these notes through the use of this hardware. Payroll accounting and auditing can be combined in one well-prepared program for the computer. The review of many phases of the instalment loan operation can be incorporated in the regular accounting program for that job."

One possibility suggested by Mr. Shipley is the design of programs specifically for the audit function. The equipment would scan the recorded data and call the auditor's attention to any exceptions or variations from predetermined and previously approved accounting methods and results. Establishment of independent service bureaus throughout the country, he said, will greatly facilitate this approach.

Audit by Exception

"Under such a system," he pointed out, "we would have an audit by exception rather than a review of every item or every transaction."

Assuming that the source document prepared by various employees throughout the bank is the area of greatest vulnerability, the same controls can be applied, under automation, that have been effective in the past. "This may include the use of serially numbered forms, maintenance of adequate source controls, and periodic cash counts." Operations such as instalment or mortgage loan accounting provide an opportunity where the computer may prepare the source documents in advance of the transaction, thus providing another chance for "audit by exception."

"With this control, we can deliver to the data processing center the data for the updating of records with figures, against which the journals must balance. The principle involved is the same we have always applied."

Viewing a Computer

From an audit standpoint, Mr. Shipley summed up, the computer may be viewed in one of three ways.

"The first would be to regard this monster with suspicion and to insist that all audit procedures and audit trails formerly maintained must be maintained in the future. The second approach is to attempt to incorporate in the production programs of the computer certain steps which will provide an audit trail and which will permit the tracing of any transaction through the entire process. The third is to adopt the computer as an audit tool and develop programs which will force it to produce for the auditor the data and information of interest to him which the

computer can produce more rapidly and accurately than the audit staff. Areas other than those mentioned would include schedules of past due loans, an analysis of the accuracy of interest collections and payments, and a review of income collections on trusts.

"This third approach is by far the most constructive and should result in the finest audit performance we have ever known."

Operations Procedure Manual

DOES your bank have a manual of operating procedures? Maybe your answer is "No, but we've often thought about getting around to it." Or, "We have one, but it only covers a couple of departments."

An advocate of the manual is R. Ernest Lightbown, auditor, Mellon National Bank and Trust Company, Pittsburgh, who offered suggestions along this line at a NABAC meeting. He emphasized the benefits, especially to auditing.

It appears [said Mr. Lightbown] that the big job is the writing of the manual—specifically, the procedural play-by-play that is its contents. But the job can really be simple.

In every bank, with or without branches, the manual is a guidebook. With it you don't have to depend on one staffer telling another the operational practices, perhaps without explaining the details and the reasons for the steps.

Sets Control Practices

The operation procedure letters comprising the manual provide the first opportunity to establish continuous control practices. Once a procedure is written down, the words become your standard: you abide by it until the instructions need to be corrected or brought up to date.

The manual also enables the control officer to verify that the procedures are being followed, and facilitates his report of exceptions or infractions. It should be available to everybody, especially the supervisory employees.

Mr. Lightbown suggests that in preparing a manual the bank take one department and function at a time. Start with an easier one: money and tellers, control and handling of cash, night depository. Write your rules and regulations, perhaps—before you do so—investigating your present system of safeguards, control, and operations. If you find loopholes or omissions of good practices, this is a good time for repairs.

Procedure manuals for operations should be followed to the letter.

"The knowledge and experience gained by the time and effort devoted to reviewing your actual operations, procedures, forms, flow of work, and internal safeguards," said Mr. Lightbown, "would be invaluable. It means a review of your operations and procedures in order to arrive at an up-to-date conclusion. This would be well worthwhile.

"Many have hesitated to write an audit procedure because they are afraid the audit clerk will follow the outline absolutely, and maybe miss a pertinent point. This is possible, of course; but the benefits of an audit outline far overshadow this point.

"To do the job well and to get the most value, make the study and review in your own bank, and decide the kind of audit program needed and the controls you want.

Audit Manual, Too

"The foundation of good internal auditing is a well-prepared audit program that includes a summation or detailed outline for every department and account subject to audit. The audit manual should set down each step, and estimate the time necessary to complete the job. With a manual and a program there can be no question as to the frequency and scope of the audit."

Mr. Lightbown also says that an audit questionnaire covering functional matters would reveal whether a department is operating according to procedure. The answers are obtained during an audit.

Term Loan and Credit Forms in New Booklet

A BOOKLET to assist bank officers in setting up term loans and revolving credits is being distributed to correspondent banks by the American National Bank and Trust Company of Chicago.

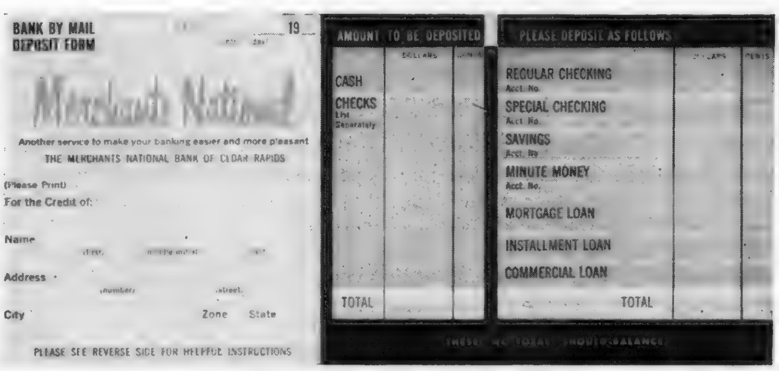
Compiled by Vice-president Leigh R. Gignilliat, Jr., and Dudley F. Jessopp, attorney, the brochure contains sample forms covering one-bank agreements for term loans and revolving credits, and similar forms for two or more banks.

Every effort has been made to shorten and simplify the agreements without omitting necessary safeguards.

Check List for Revolving Credits, Term Loans

THE Hanover Bank of New York has developed a comprehensive

(CONTINUED ON PAGE 122)



This all-purpose bank-by-mail form is now being offered to customers of the Merchants National Bank, Cedar Rapids, Iowa. It permits mailing deposits for checking or savings accounts as well as payments on all loans. The customer completes the form to accompany his deposit. The carbon duplicate is returned by the bank as his receipt. Merchant pays the postage. Form is being copyrighted

Can Bank Examination Costs Be Cut?

A new path through the tangle of overlapping and duplication in bank audits and examinations is explored here. In a later article the author discusses the roles of internal and independent auditors

HERBERT E. KIRMMSE

While Mr. Kirmmse is a supervising bank examiner with the New York State Banking Department, his views in this article do not necessarily reflect the official attitudes of that department. Mr. Kirmmse is a member of the New York State Society of Certified Public Accountants serving with its committees on banks and savings institutions accounting, cooperation with bankers, and civic affairs. He is also a member of the faculty and the board of governors of the New York chapter, American Institute of Banking.

DOES this sound familiar? "We're being over-examined!" "What! Are you state (or Federal) examiners here already—the outside accountants left just yesterday." "Well, here come the CPAs, right after our internal auditors have completed their examination."

As a banker you have probably heard or made some such remark on more than one occasion. But few bankers have the temerity to make an issue of this touchy subject despite the increasing frequency and expanding scope of audits and examinations, resulting at times in overlapping of functions and duplication of work by the examining groups.

Why is this so? Why haven't cost-conscious bankers insisted upon top efficiency, elimination of unnecessary duplication, and a cost control of the audit and examination functions to the same extent that they have demanded these achievements in their deposit, loan, trust, and other areas?

A good part of the reason for this diffidence is found in the disturbing events of the past few years. With frauds, defalcations, check-kiting, embezzlements, and other deceitful schemes on the rise, bankers have been pressed to strengthen internal controls, employ a fulltime auditor, and retain independent accountants. The supervisory authorities, likewise alarmed at the mounting evidence of lapses of integrity, have broadened their own examination procedures and joined in urging bankers to extend their protective measures. Bonding and surety companies, too, have added their voices to the chorus for an intensified clamp-down on all areas of operations where losses from fraud and misappropriation have increased.

Casting aside any taboos against questioning the audit and examination functions, the purpose of this article is to attempt to stimulate open discussion of certain aspects of the subject which appear timely and pertinent.

For the initial phase of our analysis of audits and examinations we shall aim our searchlight at the cost factor. Annual reports of expenses filed by financial institutions with the supervisory agencies show that costs of audits and examinations, and the related outlay for surety coverage, have climbed steadily year after year.

An expected reaction after scanning such figures might well be a "so what" attitude. After all, haven't all costs zoomed as an inevitable concomitant of the postwar (and current cold war) inflationary period? Perhaps we are paying even less today in terms of actual purchasing power to obtain the same or better audits and examinations compared with those in effect some years ago.

Is the Cost Necessary?

Possibly so, but is it not fair to ask, in these times of expense analysis, whether every dollar paid out for asset evaluation and fraud protection is necessary and warranted? Unless there is some hidden justification for this particular area of expense to escape regular analysis, then it should be subjected to as close a scrutiny as any other cost. And it should meet the same tests: Is the expense necessary; are we getting proper value for every dollar spent; and can the operation or function be made more efficient?

Following through a bit further on this line of thought, we might profitably investigate some of the factors that suggest a lessening need for the existing multiplicity of examinations and audits. For example, lending and investing techniques have become more scientific and perceptive as one result of the great depression. Banks have trained and developed credit analysts and lending officers who specialize in handling particular industries or geographical areas. As instances, loans to finance the requirements of

the oil industry, to motion picture companies, to transportation firms, and the like, will in each case be the primary concern of a senior officer and his staff.

There is little denying that under this system of industrial or geographic specialization sounder loans are being made, they are better serviced, losses have been minimized, and the business community as well as the banks are better served. Similarly, with regard to the investment portfolio, specialists in security analysis have been trained and developed whose task is to maintain unceasing vigilance over trends and outlook in the various industries and government bodies represented by the bond issues.

Management Has Improved

Many banks have materially raised their level of managerial quality and depth through use of college recruitment programs and the selection of promising employees for advanced training. Under this plan trainees are given on-the-job training in credit analysis, operations, trusts, supervisory development, and general banking. These candidates for higher positions are also encouraged to take outside courses at the bank's expense. Those found adaptable are on their way to becoming department heads and junior and senior officers.

So much for our look at some highlights of recent banking developments in improving management, asset quality, and operating efficiency. Of equal significance, a new look in public relations has been added. A more acceptable "image" to the man in the street has been created of the many-faceted place that banking occupies in his economy.

New Standards Needed

These advances indicate that existing standards of examination, largely geared to the less enlightened conditions of the past, are due for revision. The change could come chiefly through upgrading their quality and improving their effectiveness while diminishing their frequency.

What about protection against fraud from within and without; a hazard of special concern to banks? Has there been self-discipline and strengthened procedures along these lines as well? Here again, in combatting potential losses through misappropriation, bankers have painstakingly increased the safeguards by means of improved personnel selection, expanded employee training and schooling, better compensation, adoption of automation procedures, and tightening of internal and external controls. In the event these barriers are penetrated, bankers generally have increased the amount and range of their surety coverage.

Less Frequent Audits

These are constructive evidences of accomplishments by bankers in putting their houses in order for all to see, including government examiners, outside accountants and, most important, the public. In view of them, should it not now be practicable to consider whether there is a continuing need for the old pattern of frequency of audits and examinations?

Based on the rather incomplete outline so far presented, there appears to be justification for improved planning, execution, and coordination of audits and examinations. Fewer, more effective audits and examinations may well provide as satisfactory an asset appraisement and audit protection as before with resulting cuts in costs, both direct and indirect.

How to Cut Costs

Direct cost-cutting could be achieved by so scheduling and arranging the various internal and external audits and examinations that unnecessary duplication would be eliminated, or at least reduced to a minimum. Specific suggestions for accomplishing this desirable goal are set forth a little later on in this article.

Indirect cost-cutting includes minimizing the interruptions of officers and staff which characterize too frequent audits and examinations. Dollarwise it is difficult to measure this type of cost, but every banker is acutely aware of the valuable time and effort spent answering the same questions repeatedly. These questions often concern items and processes which warrant explanation at reasonably periodic intervals, but not several times a year as is often the case.

The following suggestions are offered primarily as a basis for thought and discussion to be followed (it is hoped) in good time by appropriate action. They are not intended to be all-inclusive or, by any means, the final or best deliberations on the subject. For more orderly review, each examining group is listed separately, but in no particular order since all are deemed of equal importance.

Government supervision and regulation of banks in this country has a century-old tradition. Periodic reports of Government examiners have provided the authorities with the factual, impartial information required to determine whether the bank is solvent and properly managed. One of the most important of the examiner's functions is to detect and report on undesirable trends and point out means of arresting them before the institution is endangered.

Signs of Changing Times

Probably the most grueling period for Government examiners, as well as for bankers, was that experienced during the big depression—presiding over the liquidation of unsound institutions and striving desperately to salvage others. There appears little likelihood that such distressing conditions, and the economic debacle which brought them about, will be repeated.

As recent history shows, banks have expanded in deposits and assets while the number of individual institutions has shrunk. Today's 14,000 banks (not including branches) are less than half the number in existence just prior to the 1933 bank holiday, and bank failures since that time have been rare indeed. All this is to the good. And few will deny that the endeavors of state and Federal examiners have contributed materially toward the evolution of a sounder banking system.

Banking Has Matured

We have learned much from the past, but in these fast-changing times we cannot afford to live in the past. Reflecting on the well-remembered lessons of the depression and the subsequent progressive steps taken, including deposit insurance, improved lending and investing techniques, continuous professional training of bankers, and enlightened public relations, it seems that the banking system has matured.

(CONTINUED ON PAGE 142)

"When Should I Start a New Business?"

A Checklist

R. B. STEWART

The author is president of The Miami Deposit Bank, Yellow Springs, Ohio.

A MAN who has worked for the Air Force for a great many years in a responsible position is looking forward to retirement in five or six years. He is stationed in a city of about 20,000 people. He thinks there is a fine opportunity to start a business now and let his wife manage it. Then later he would have something to retire to that he could enjoy. The city has no music store at all and he proposes to start one. He and his wife are both musically inclined.

He asked for our advice. He said he would need to borrow money to set it up, and he wondered what difficulties he would run into if he tried to get a bank loan. In a case of this kind we find that we cannot just tell him whether it is a good idea or not. Even if we thought we knew the right answer we could not expect one or two conferences to do the job of guiding him in his decisions. We have prepared the following material to hand out to such persons.

BANK LOANS FOR STARTING NEW BUSINESSES

THERE are several kinds of business loans which may be required when buying or starting a new business.

First of all, there is the money needed to buy the business plus the amount needed to get it ready to operate. This investment usually requires a long-term repayment schedule, and, if any of the money is borrowed from a bank, there must be security given of a type which will make the bank safe no matter what happens to the business. It is usually better to get this money from savings invested by the purchaser or from private sources where there is no particular time limit or maturity.

Multiple Loans Often Needed

After buying or starting a business, the new owner very often finds the money he expected to use for working capital is being fully absorbed in accounts receivable and inventory. This causes a need for the second type of loan, and, if borrowed, it should be only on a basis of a long term so that it will not put the borrower in an embarrassing position. In a new business, it is particularly important for the owner to build up a credit line at the bank. The bank very often receives requests for credit information on customers, and, if a business has a good reputation for being prompt at the bank, it will help a lot to build a good credit rating. In order to get a good rating at the bank, the first reputation one must establish is that of promptness.

Protect Your Good Credit

NEVER LET A NOTE BECOME OVERDUE. Note notices should receive attention right away even though the note may not be due for several days. It is also a good practice to file a financial statement at your bank each six months whether any money is borrowed or not.

The danger of borrowing at the bank is that, unless one arranges for a long-term loan, he may have a note coming due that he cannot pay as agreed. Then he gets his credit rating off to a wrong start. So, unless the bank agrees to go along on a long-term renewal basis, he should not borrow unless he is prepared to raise the money when the note is due, even if the business has not enough cash to do it.

The third kind of loan needed by a business is the short-term loan which can be repaid each 30, 60, or 90 days from regular sales or collections. This is the one which is most properly a bankable loan. It cannot usually be granted, however, until after the borrower has run a business long enough to show that he has knowledge of what he is doing, has been making a profit, and can show statements proving his ability to make a profit, plus having a sound working capital ratio.

Few banks will loan on what the buyer *thinks* he can make from a new business in which he has no experience record. Too many things can happen to prevent profits. After a business is in operation and making a profit, some of the ways in which a loan from a bank might be obtained are:

(1) To be repaid from accounts receivable where experience shows they are collected on time from responsible customers.

(2) To handle seasonal needs for inventory.

(3) To floor-plan readily salable merchandise such as automobiles or farm implements.

(4) To take discounts.

Don't Start an Unfamiliar Business

It is wise to buy or start only a business in which one has had considerable experience. Experience preferably should be on a management level. Neither should one buy a business unless he has a good proportion of his own money available to put into it. Most successful businesses are started on a small basis and build up volume from their own profits, although very often a going business can be bought and can be successful provided (1) the buyer has enough previous experience in that line or has managed a similar business long enough to know what he is doing, and (2) he does not have to borrow more than one-half of the cost from anyone.

Even if these qualifications can be met, it is not always wise to buy a business. Some things the buyer should ask about himself first are:

(CONTINUED ON PAGE 145)

Private Pension Funds—A Growing Giant

Here's a discussion of private pension funds—a source of business for your trust department, a source of competition for your loans. BANKING's Washington correspondent tells what this new financial giant means to banks. Already a major factor in the securities market, their spectacular growth points to the fast-approaching day when their assets will be at least equal to those of mutual savings banks.

HERBERT BRATTER

Introduction to a Major Element of the Nation's Financial Scene

PRIVATE pension funds have experienced a fantastic growth during the past decade and, still growing, already constitute one of the major elements of the U. S. financial scene. Their assets exceed those of any other type of retirement fund including Social Security. Three and a half times as large as they were in 1950, private pension funds constitute a major factor in the market for corporate securities, particularly bonds. They have become the leading buyer of new stock issues. About a quarter of the nation's force of workers are participants in these private retirement funds and the proportion is growing. In another half dozen years, it is estimated, noninsured private pension funds alone will equal mutual savings banks in assets.

Many commercial banks, national banks indicate, have created pension funds for their officers and employees. Bank supervisory agencies encourage this on the theory that such funds are morale builders and so make for a stronger banking structure. A number of other banks engaged in trust business are interested in managing the assets of pension funds established by their business customers.

Private pension funds are of two general kinds: insured and noninsured. Insured pension reserves are in the care of insurance companies, while noninsured corporate pension funds usually are entrusted to trustees, either corporate or individual. Of \$39.3-billion of private pension fund assets at the end of 1958, \$15.5-billion were classified by SEC as insured pension reserves and \$22.1-billion as noninsured. The remaining \$2-billion included reserves of nonprofit organizations, multi-employer and union-administered plans.

As used by SEC the term "insured pension reserves" is believed to refer largely to corporate pension funds, but to an unknown degree also to funds maintained by unincorporated businesses. "Noninsured corporate funds" include not only "trusteed" pension plans but also "pay-as-you-go" and "deferred profit-sharing" plans. Pay-as-you-go plans involve no funding, benefits being paid out

of current revenues. Deferred profit-sharing retirement plans are financed in whole or part from the employers' profits, with shares apportioned to the participants accumulating until retirement.

The bulk of noninsured pension funds being administered by banks and trust companies, the latter have special interest in the growth of such retirement plans in the years immediately ahead. Some two years ago Vito Natrella of the SEC estimated that by 1965 private pension funds will have nearly $77-billion of assets, $51-billion of this figure being in noninsured form. The latter figure, Mr. Natrella suggests, may represent a portfolio consisting of: U. S. Government securities, $2.1-billion; corporate bonds, $27-billion; common and preferred stocks, $15.8-billion; and other assets, $6.1-billion. Whatever the exact breakdown proves to be, the trustee job will be gigantic.

State Member Banks Administering Employee Benefit Trusts and Agencies During 1958, by Federal Reserve Districts

(000 omitted in dollar amounts)

Federal Reserve districts	With investment responsibility		Investments directed by others		Held as agent only	
	Number of plans	Market value	Number of plans	Market value	Number of plans	Amount
Boston	368	$ 477,326	57	$ 90,254	51	$ 11,772
New York	2,321	9,234,644	386	821,072	200	1,234,162
Philadelphia	344	143,276	241	95,813	28	60,720
Cleveland	605	498,620	81	47,739	68	16,525
Richmond	307	128,806	67	33,081	4	303
Atlanta	161	20,241	40	6,586	5	417
Chicago	755	351,690	290	204,952	99	189,587
St. Louis	149	37,870	74	18,122	13	9,354
Minneapolis	.....	....	20	192	.....	....
Kansas City	52	16,764	13	7,601	5	133
Dallas	12	3,260	23	1,503	1	69
San Francisco	198	116,397	292	56,994	19	11,059
Total	5,272	$11,028,894	1,584	$1,383,909	493	$1,534,101

National Banks Administering Employee Benefit Trusts and Agencies, During 1958 by Federal Reserve Districts

(000 omitted in dollar amounts)

Federal Reserve districts	With investment responsibility		Investments directed by others		Held as agent only	
	Number of plans	Market value	Number of plans	Market value	Number of plans	Amount
Boston	261	$ 103,497	68	$ 12,988	28	$ 34,238
New York	250	232,634	154	209,502	82	62,710
Philadelphia	160	34,595	182	33,011	29	222,996
Cleveland	1,097	1,275,442	327	162,190	36	889,707
Richmond	283	25,921	175	38,797	8	14,578
Atlanta	341	76,716	209	41,637	31	136,506
Chicago	1,637	1,451,969	494	185,536	194	265,495
St. Louis	117	17,693	39	15,559	10	68,972
Minneapolis	488	139,063	62	15,479	16	2,733
Kansas City	218	42,346	191	27,468	23	9,971
Dallas	212	55,606	196	111,832	41	13,830
San Francisco	440	209,382	724	172,904	46	25,840
Total for national banks	5,504	$ 3,664,869	2,821	$1,026,910	544	$1,747,583
Nonnational banks located in the District of Columbia	14	$ 4,143	10	$ 3,070	13	$ 99,016
Total	5,518	$ 3,669,013	2,831	$1,029,981	557	$1,846,600

Market Value Tops Book Value for 1958

Assets of all public and private pension funds taken at book value at the end of 1958 totaled, according to the SEC, $88.8-billion. The place of private pension funds in this total may be seen from the following breakdown, in billions of dollars:

Private	$
Noninsured corporate funds	22.1
Insured pension reserves	15.5
Total private funds*	39.3
Government	
Railroad retirement	3.7
Civil Service	8.7
State & local	15.2
Old Age & Survivors Insurance	21.9
Total Government funds	49.5
Grand total	88.8

* Includes reserves of nonprofit organizations, multi-employer plans and union-administered plans extrapolated by SEC from Social Security Administration estimates for earlier years.

As compared with book value of $22.1-billion. the market value of corporate pension funds at the end of 1958 was $24.6-billion.

Some Corporations Borrow From Own Funds

Apart from the aspects of pension funds mentioned above, such funds are of interest to banks as competitors in the lending business. Deputy Comptroller of the Currency L. A. Jennings, in an address before the Pennsylvania Bankers Association at its latest convention, referred to this aspect as follows:

"Corporate pension and profit sharing plans are becoming increasingly competitive with commercial banks despite the fact that commercial banks frequently act as trustee

for the plans. Bankers from various areas of the country have told us that a sizable number of corporations now borrow from their own pension or profit sharing funds, thus depriving their banks of the loans. At the end of 1958 there were 48,000 Treasury-approved pension and profit sharing plans, many of which were funded. The impact of the growth in retirement fund accounts on the economy was noted by the Securities and Exchange Commission in a very recent report."

U. S. Comptroller's Report Now Includes Pension Funds

The 1958 annual report of the Comptroller of the Currency for the first time publishes statistics on national banks and pension funds by Federal Reserve districts and by states. The number of such banks administering employee benefit trusts and agencies and the market value of such trusts and agencies is given under three headings, depending on the nature of the banks' investment responsibility. The statistics by Federal Reserve districts are presented in the accompanying table, together with corresponding data tabulated by the Federal Reserve Board for state member banks.

Under each of the three headings mentioned, the number of national banks concerned with such funds exceeds the number of state member banks similarly concerned; but in the cases of trusts administered with full investment responsibility and those where investments are directed by others, the amounts involved are greater in the cases of state member banks. On the other hand, in the case of trusts held by banks as agent only, the larger number of national banks administered property with a slightly larger total value than in the case of state member banks.

Only one Federal Reserve District, Minneapolis, has no state member banks administering pension trusts with full investment responsibility.

As might be expected, the New York District shows the largest value and the greatest number of bank-administered pension trusts. National and state banks there have full investment responsibility over funds aggregating more than $9.5-billion in market value in 1958. State member banks alone accounted for $9.25-billion of the foregoing figure. In the New York District relatively few pension funds in number or market value administered by banks provide for investment direction by others. In the same district, state member banks held as agent only $1.25-billion of pension trust assets. The other big pension fund districts shown are Chicago and Cleveland.

Stable Dollar Even More Vital Now

The rapid development of pension funds on the American economic and social scene has given millions of Americans in all walks of life a direct stake in a stable dollar. To the extent that a retired person or the dependents of a deceased person must live on a fixed income, such persons are injured by inflation. Pension trusts provide an added reason why the A.B.A. is pushing its recently launched anti-inflation campaign.

Subsequent articles of this series will discuss certain aspects of pension funds of special interest to banks today.

Bank Pension Plans

PENSION programs among banks have gained in prominence since World War II, especially among smaller and medium-sized banks which had not previously adopted such plans. This trend the Comptroller's office has attributed to the desire to provide economic security for the employees and recognition that retirement programs have become increasingly important in the general wage structure. "Thus," states the Comptroller, "it has become correspondingly more difficult for banks to obtain and retain desirable personnel if such plans are not available." Among considerations which have influenced banks to adopt pension plans the Comptroller lists:

(1) Increased efficiency of employees who enjoy good prospects for future economic security.

(2) Reduction in employee turnover.

(3) Greater selectivity possible in obtaining new employees.

(4) Improved opportunity for advancement of younger workers afforded by the systematic retirement of older employees.

(5) Promotion of employee satisfaction and goodwill.

Pension plans, the Comptroller states, assist in furnishing continuity of management, particularly in the small and medium-sized banks. The value received from pension plans "is adequate to justify the expense," which averages about 7% of net profits before taxes and dividends.

While in theory a pension plan makes a job more attractive to the employee, this is not necessarily true under all circumstances. A pension officer in the trust department of a large Washington bank commented: "I don't know how important pensions are in holding bank employees. In my work I have found that before the age of, say 40 to 45 —somewhere in there—the average

employee is little interested in pensions. He doesn't know what his pension rights are and it all seems so far off that I don't think it stops him from changing jobs. And after 40 to 45, even if there is no pension, an employee holds on to his job."

A survey of national banks by the Comptroller in 1956 disclosed that about 35% of such institutions had pension plans. This figure does not take into account 138 national banks having plans for which information was not completely available. The remaining 1,567 national banks with pension plans employed 80.3% of all national bank personnel. The smallest national banks, with deposits of less than $750,000, had no pension plans at all, whereas the very biggest—banks with deposits of more than $500,000,000—all had such plans in force.

The tabulation shows that the cost of pension plans generally tends to decline as a percentage of net profits as the size of the plan increases. For the smallest national banks having pension plans the burden is heaviest, as shown in the last column of the accompanying table, "National Banks with Pension Plans."

The second accompanying table, "Geographic Distribution of National Bank Pension Plans," shows the distribution according to Federal Reserve districts. In presenting this table the 1956 annual report of the Comptroller stated:

"In all Federal Reserve districts a majority of the larger banks have pension plans, while only 22% of the national banks with deposits under $10,000,000 have programs. Most of the smaller banks without plans are located in agricultural areas which do not have to compete directly with industries offering such plans. National banks with pension plans range from a high of 58% in the First Federal Reserve district to a low of 18% in the Tenth Federal Reserve district."

The National Association of Bank Auditors and Comptrollers has available at $2 a copy a manual presenting in a dozen printed pages the basic factors involved in pension funds. This is *An Introduction to Pension Plans,* by Personnel Administration Commission, NABAC, 38

Geographic Distribution of National Bank Pension Plans

Federal Reserve district	*Banks with deposits under $10,000,000*			*Banks with deposits over $10,000,000*			
	Number of banks			*Number of banks*			
	Without plans	*With plans*	*Percentage with plans*	*Without plans*	*With plans*	*Percentage with plans*	*Grand total percentage with plans*
1. Boston	91	94	51	12	51	81	58
2. New York	144	112	44	32	95	75	54
3. Philadelphia	239	128	35	27	68	72	42
4. Cleveland	231	57	20	23	68	75	33
5. Richmond	185	60	24	29	65	69	37
6. Atlanta	152	28	16	39	82	68	37
7. Chicago	283	57	17	70	147	68	37
8. St. Louis	234	21	8	22	39	64	19
9. Minneapolis	180	81	31	2	63	97	44
10. Kansas City	457	52	10	47	55	54	18
11. Dallas	349	37	10	46	54	54	19
12. San Francisco	49	13	21	11	40	78	47
Total	2,594	740	22	360	827	70	35

Size Distribution of National Banks with Pension Plans

Size of bank based on total deposits	*Number of banks*		*Average number of officers and employees per bank with plans*	*Average annual cost of plan per bank*	*Average annual cost of plan per staff member*	*Cost of plan per bank as a percentage of net profits before taxes and dividends*
	Without plans	*With plans*				
To $500,000	23	0				
$500,000 to $750,000	65	0				
$750,000 to $1,000,000	94	2	4.0	$2,000	$500	21.0
$1,000,000 to $2,000,000	592	43	6.0	1,700	281	8.7
$2,000,000 to $5,000,000	1,228	331	11.2	3,100	280	7.6
$5,000,000 to $10,000,000	592	364	23.5	5,800	280	7.3
$10,000,000 to $25,000,000	280	416	45.4	12,100	266	7.6
$25,000,000 to $50,000,000	54	188	97.0	27,300	282	7.3
$50,000,000 to $100,000,000	17	98	193.5	52,600	229	7.0
$100,000,000 to $500,000,000	9	104	577.2	164,700	285	6.8
Over $500,000,000	0	21	3,537.6	1,445,500	409	6.7
Total	2,954	1,567				

		Percent
Total salaried staff—officers and employees—of 2,954 banks without plans (65.4%)	49,577	19.7
Total salaried staff—officers and employees—of 1,567 banks with plans (34.6%)	202,058	80.3
Total	251,635	100.0

South Dearborn St., Chicago 3, Ill., 1958. The manual also tabulates the results of a NABAC 1955 survey of 197 banks having pension plans, profit-sharing plans, life insurance, and cash bonuses for employees. For each bank replying to the questionnaire, NABAC gives details of the pension plans but no bank is identified by name.

Large-Bank Plans

Most large banks have their individual retirement programs, which are described in rather elaborate booklets prepared for participating employees. For example, the Guaranty Trust Company of New York, prior to its merger with J. P. Morgan & Co., in 1959, described its pension fund in a 33-page printed booklet, *Retirement System of Guaranty Trust Company of New York.*

The Manufacturers Trust Company in 1954 prepared a 51-page printed brochure, *Retirement Program for Correspondent Banks.* The Philadelphia National Bank in 1954 inaugurated the "Philabank Plan," which it offers to smaller institutions. Numerous state bankers associations sponsor pension plans for members. Full information on such plans is available from the associations concerned.

Basic information on provisions of 17 different state banker association plans is tabulated in the above-mentioned NABAC manual. The latter also lists the main features of two different bank pension programs for correspondent banks.

The Philabank Plan claims to be unique. It incorporates modern employee benefits, retirement pensions, death benefits, monthly income death benefit for widows and orphans, and optional coverages such as disability income. It is "flexible in cost . . . integrated with Social Security and may be used to improve existing pension plans and group insurance programs." Its "dual funding" involves trust and insurance contracts. The main part of contributions to the plan goes into Philabank Trust Fund, administered and invested by the Philadelphia National Bank. The rest is used to carry a low-cost Mutual of New York group insurance-annuity contract. When an employee retires the required amount is taken from the trust fund to buy additional annuities at group rates.

The advantage of a state bankers association or a correspondent bank pension program to a small bank is obvious. As stated by the Philadelphia National Bank, the case of an employee who "lives too long" can pose a difficult and costly situation for a small bank. Pooling the pension funds of a number of small banks guarantees the discharge of the pension obligation and eliminates the possibility of long-lived employees causing a deficit. The Philabank Plan embraces not only small banks but also savings and loan associations, finance companies, and other financial institutions. Since the Philabank Plan was first offered in 1954, at least 65 such plans have been installed in 15 states.

Examples of Pension Plan Benefits

FROM a Bankers Trust Company 1956 compilation, *A Study of Industrial Retirement Plans,* the following two examples are selected at random. A bank with 400 employees in 1956 started a pension plan covering all employees of age 25 to 65 with at least one year's service. Employees are eligible to retire at 55 provided they have 15 years' service. Employees make no contributions, those of the bank going into a pension trust fund. The past service benefit formula is ¾ of 1% of the annual compensation on January 1, 1956, under $4,200 and 1¼% of the excess over $4,200 multiplied by the years of past service after age 25 and one year's service. The future service benefit formula is 1% of each year's compensation under $4,200 and 2% in excess of $4,200. There is no maximum or minimum. The approximate pension including primary Social Security benefit based on 30 years of future service after eligibility ranges from 65%, if the average annual compensation is $3,000, to 60% when it is $20,000.

A bank group having 3,200 employees has a plan open to all employees not over 65 having at least a year's service. Early retirement is possible with the employer's consent at age 50 after 20 years' service and at the employee's election at 55 after 20 years' service. Employees contribute 4% of the first $4,200 of earnings and 5% on the balance. Benefits apply to past and future services. On the latter they are 2% of each year's compensation under $4,200 and 2½% on the excess over $4,200. Normal retirement age is 65. The approximate pension, including primary Social Security benefit, based on 30 years of future service after eligibility, ranges from 95% where the average annual compensation is $3,000 to 78% where it is $20,000.

Federal Reserve Retirement System

THE 12 Federal Reserve banks have a common retirement system managed by a board of trustees of 26 members with an office in the building of the Federal Reserve Bank of New York. The secretary of the retirement system is in charge of that office. Members of the board of trustees consist of the presidents of the 12 banks, a trustee elected by the employees of each of the 12 banks, and two others from the Board of Governors in Washington, one being a member of that Board and the other being elected by the employees of the Board of Governors.

Employees retiring from the Federal Reserve banks receive retirement income from three sources: a pension provided by the bank, an annuity provided by the employees'

own contributions and, thirdly, Social Security. The Federal Reserve banks contribute an average of approximately 9% of total payroll to the retirement program. In addition, the banks have made special payments to cover the accrued liability for benefits for service rendered after age 21 and prior to the date of establishment of the retirement system in March 1934, and from time to time special payments have been made to cover the accrued liability in respect of increases in benefits made since the retirement system was established.

The banks' contributions provide all pension payments, lump-sum death benefits payable upon death in active service, and the costs of operating the retirement system. In addition, the banks provide a death benefit under a group insurance policy to supplement the active service death benefit provided under the retirement system. Moreover, the banks also contribute, as do other employers, toward the Social Security benefits. Employees' contributions provide for their annuities and are refunded in case of death in active service or separation from service. Employees are permitted to contribute more than is required, the additional contributions being usable to increase the retirement benefits or to be refunded in a lump sum at retirement. Employees' contributions earn interest of 3% compounded annually.

The pension depends on creditable service and final average salary. Creditable service means all service rendered between the date of most recent employment and age 65. Periods of service with another Federal Reserve bank or with the Board of Governors may also be counted, and also military service. "Final average salary" means the average annual basic compensation without overtime or special payments during the highest five consecutive years.

The normal pension amounts to ¾ of 1% of the first $4,200 of final average salary for each year of creditable service plus 1½% of that part of the final average salary in excess of $4,200 for each year of such service, provided that the normal pension for each year of creditable service prior to 1951 may not be less than 1% of the employee's full final average salary. The reduced percentage on the first $4,200 is explained by the fact that the bank pays half of the Social Security tax. For creditable service prior to the date of establishment of the retirement system an additional pension is paid.

The total pension plus the annuity provided by the employee's required contributions is limited to 75% of the final average salary.

The annuity normally is on a cash refund basis, but the employee may opt for a different basis, e.g., larger payments during life and no benefit payable to the estate on death. There is provision for early retirement after 10 years of creditable service, with pension and annuity payments commencing at any time after age 50 but not later than age 65. Total and permanent disability retirement is possible after five years of service, the pension in this case being 1.3% of the final average salary for each year of creditable service, plus the annuity based on accumulated contributions. The longer the disabled employee's service, the larger the disability pension.

A number of optional methods of receiving retirement payments are available, including the straight life basis, joint and survivorship bases (two), and various special combinations of such options. All the retirement payments referred to above are in addition to those received from the Federal Government under the Social Security program.

The retirement system of the Federal Reserve banks places no restriction on the amount a retired employee may earn while receiving benefits on service retirement at age 65 or special service retirement before 65. However, on that portion of their retirement income which retired employees get from Social Security, that program's limitations on earnings after retirement apply.

Investment policy is reflected in the composition of the $216,000,000 fund on February 28, 1959 (book value). The percentage breakdown follows:

U.S. Government bonds	33.51
U.S. Government bills	0.24
Federal Land Bank bonds	2.33
Public utility bonds	22.59
Industrial bonds	6.77
Railroad bonds	5.26
IBRD bonds	2.07
State & political subdivisions	0.67
Canadian Govt. & political subdiv. bonds	1.70
FHA mortgages	0.78
Preferred stocks	5.80
Common stocks	18.28
	100.00

Common stock holdings were scattered among a score of industries. In electric utilities were 12.70%. Petroleum accounted for 16.68%; chemicals, 10.82%; food products, 4.66%; merchandising, 3.91%; tobacco products, 2.54%; etc.

The yield on the average of investments during the year ended February 28, 1959, was 3.81%, compared to 3.70% the previous fiscal year. Common stocks provided the highest yield, 5.85%, followed by Canadian bonds, 4.29%.

Pension Plans Trusteed to Banks

APART from the pension funds created for the benefit of their own personnel, many banks have considerable interest in trusteed corporate pension funds. In terms of book value at the end of 1958, out of $39.3-billion of private pension fund assets, $22.1-billion, according to the SEC, were non-insured corporate pension funds. Of this amount, it is estimated in New York, about 80% is trusteed to banks,

or about $17.7-billion. Of this, between 50% and 60% is trusteed to New York banks, some of which pioneered in this field. Probably less than a dozen big New York banks account for the bulk of trusteed pension business in that state.

Since big corporate and union pension funds pose big problems of investment and administration, the larger banks regard it as natural that, with their extensive research and investment departments, this business should have gravitated to them. On the other hand more and more banks and trust companies across the country are "getting into the act." Important pension fund trusteeships are held by banks in such cities as: Boston, Chicago, Cleveland, Detroit, Hartford, Philadelphia, Pittsburgh, St. Louis, and San Francisco.

From the standpoint of investment of assets, banks handle large pension funds individually, whether the customer be an industrial firm or a correspondent bank. But many banks also utilize commingled funds for the investment of smaller pension funds, whether they be those of corporate customers or correspondent banks. Still other banks allow customers to participate in the pension fund set up by the bank originally for its own staff. Very small banks in many states are able to provide pensions for their employees through group plans maintained by state bankers associations.

Not Always Profitable

Although a few New York banks are trustees or agents for very large pension-fund assets, in financial circles in that city the opinion seems prevalent that the business is not invariably profitable to the banks concerned. The fees charged appear to be inadequate. Some banks appear to be willing to run their pension departments at a loss—as a sort of "loss leader"—for the sake of other banking and trust business which they hope to get as a result of the close relationship established with top company officials through the pension trust business. Although some fees have been raised in the past year or two, the level of compensation in New York appears still to be short of enough to enable the work to stand on its own legs.

The pension-fund fees of New York banks are considerably smaller than the fees charged by the managers of mutual funds.

Prof. Roger F. Murray, who is directing the pension research project of the National Bureau of Economic Resarch, observed to BANKING:

> Keen competition for the pension trust business has resulted in a relatively low level of fees. Even some banks doing a substantial volume of business find that they do not cover directly allocable costs. Over the years fees have been established by leaders in the field on the basis of the efficiency and economies of large-scale operations. If the business cannot be developed in volume, the bank entering the pension field must be reconciled to conducting it on a "loss leader" basis.

That losses are being incurred by some banks is shown by data published by the Federal Reserve Bank of New York on the results of commercial-bank trust departments in New York and New Jersey. The figures, covering 10 large New York City banks, show a net operating loss before income taxes and before allowed interest credit for deposits on pension and profit-sharing trusts of $853,600 in 1957 and $796,400 in 1958. Since then rates have been raised. But they vary considerably from bank to bank.

Morgan Guaranty, for example, charges ⅓ of 1% on the first $1,000,000; ⅛ of 1% on the next $4,000,000; 1/15 of 1 percent on the next $15,000,000 and 1/20 of 1 percent on all amounts over $20,000,000. There is a minimum charge of $1,000 per annum unless the funds are invested in Morgan Guaranty's commingled pension funds, when the minimum is $500—the highest in New York City.

For preparing and mailing pension checks Morgan Guaranty charges $4 a year for each name on the roll at the end of the year. The $4 includes postage and materials.

Morgan Guaranty operates two commingled funds for employee benefit trusts. One is confined to common stocks; the other excludes common stocks. A trust may participate in either or both of the funds and may change the amounts of its participation on any valuation date, i.e., the last day of the calendar month. Through the commingled funds investments are spread among many securities. The size of a trust's participation is unlimited. Pension trusts, profit sharing trusts, thrift or savings and other employee benefit trusts may participate, provided they qualify as tax-exempt, specifically authorize participation in the commingled funds and make the Morgan Guaranty Trust Company sole trustee. The commingled funds themselves are tax-exempt and receive assets from and make payments to only the participating trusts, not to individual employees.

A different kind of flexible plan, as noted in an earlier article of this series, is typified by the Philadelphia National Bank's Philabank Plan. Through this plan, financial institutions are offered "dual-funding," a combination of a trust fund and group insurance coverage.

Insurance Companies Seeking Trust Powers

Banks have been so successful in their competition with life insurance companies for this business that the insurance companies are now seeking trust powers or their equivalent. Connecticut passed such a law early this year. Apparently the insurance companies feel that the broader investment powers they then would have, particularly in the purchase of common stocks, would put them in a better competitive position vis-a-vis the banks. Nevertheless, there are some who feel that the insurance companies cannot and should not be permitted to act in the same fiduciary capacity as a trustee and that there are numerous remaining disadvantages which will continue to limit the insurance companies' ability to improve their position in this field.

Trusteed pension plans have an important advantage over insured plans as to Federal income tax and state premium taxes, as explained by Paul A. Warner—a member of a firm of pension consultants and actuaries—in his article, "Superiority of Trusteed over Insured Pension Plans," in the *Trust Bulletin*

for November 1958.[1] Bankers interested in competing for pension trust business will benefit by reading this interesting article, which contains the following summation:

> A pension fund is for practical purposes a "cost plus" operation whether it is insured or trusteed. Consequently it becomes primarily an investment function; a function which the banks, by the very nature of their historical operation, are eminently well-qualified to handle; a function wherein the banks' minimum advantages are exemption from Federal income and state premium taxes plus the right to invest in equities to reduce costs and as a hedge against inflation.
>
> If these factors can be clearly explained to the employer who may be considering the adoption of a pension plan, the success of the trusteed method is inevitable.

[1] By 1961, insurance companies are to be entirely free of Federal income tax. Nevertheless bankers think that there will be sufficient other advantages in favor of trusteed plans to enable the banks to maintain their competitive position.

Pension Funds and Common Stocks

PENSION funds have become and promise to continue to be an important factor in the market for common stocks, and the latter are of increasing importance to pension funds and their participants. Some interesting analyses of this situation have been published during the past year or so. In his report, *Pension Funds and Economic Freedom* (The Fund for the Republic, April 1959), Robert Tilove points out that among institutional investors pension funds are significant as net buyers, in contrast to their relatively unimportant position in terms of aggregate holdings of common stocks.

Some 10% of the market value of common stock is accounted for by the holdings of domestic institutions and the breakdown of this 10%, according to SEC data, is as follows:

	billion
Corporate pension funds	$ 6.6
Life insurance companies	3.7
Investment companies	12.5
Banks	.9
State & local government trust funds	.4
Other institutions	5.3
TOTAL INSTITUTIONS	$29.4

Pension funds buy to hold, and their growth means that they buy much more than they sell. Mr. Tilove finds that, in 1954 out of net additions to common stock outstanding totaling $2-billion, corporate pension funds accounted for $450,000,000 and that in 1956 self-insured pension funds made total net purchases of stock equal to a fourth of the new equity money and more than a fourth of the debt financing required by corporations.

In the case of pension plans insured by life insurance companies, the pension reserves are mingled with other reserves and the proportion of pension reserves invested in stocks is not separately reported.

Significance Magnified

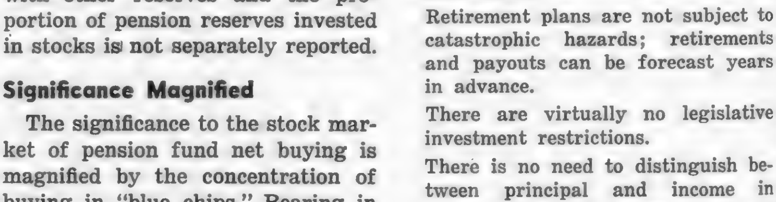
The significance to the stock market of pension fund net buying is magnified by the concentration of buying in "blue chips." Bearing in mind that corporate pension funds trusteed to banks are heavily concentrated in New York City, the data assembled by the NY State Superintendent of Banks in 1955—published under the title, *Pension and Other Employee Welfare Plans*—are illuminating on this point. The combined portfolios of 1,024 pension trusts held more than $1,000,000 of each of 206 common stocks, 85% of them listed stocks, and these holdings constituted over 92% of the trusts' entire stock holdings.

Findings of the Senate Banking and Currency Committee confirm that pension funds are the most consistent buyers of stocks. Contributions come in regularly and there is no need to sell in order to provide cash income.

In presenting the case for the common stock as the cornerstone of a dynamic pension fund portfolio ("Common Stocks and Pension Fund Investing," in *Harvard Business Review*, November-December 1958), Paul L. Howell calls attention to several significant factors:

> There is an extremely long period of accumulation and distribution of funds. In fact, although employees come and go, there is no prospect that accumulating pension funds will ever be liquidated.
>
> Inflow of money (contributions and earnings) will exceed outgo by a substantial margin for the forseeable future. Sustained growth of pension funds is to be expected for the next generation.
>
> A qualified pension fund is completely exempt from income and capital gains taxation as a "charitable" trust.
>
> Retirement plans are not subject to catastrophic hazards; retirements and payouts can be forecast years in advance.
>
> There are virtually no legislative investment restrictions.
>
> There is no need to distinguish between principal and income in recording capital appreciation and cash receipts, as is required for life tenant or remainderman interests.

Although "proper balance" is of



greatest importance in certain types of portfolios, a pension fund, states Prof. Howell, has the characteristics of being large, diversified, dollar-averaged, fully invested, long-term and growing—with almost no need for liquidity. For such a fund there is practically no need for a bond defense.

Prof. Howell holds that there is imperative need for a more aggressive and enterprising investment policy in the management of pension funds. "Investment is a complex, technical job requiring the highest skill and adherence to fiduciary responsibilities." Both earnings and appreciation are important. "History demonstrates that a well-diversified list of professionally selected common stocks will, over the long run—and taking into consideration cash dividends and capital appreciation — earn a substantial differential over fixed-income obligations," the former SEC official concludes.

According to the SEC, at the end of 1958 corporate securities of all types comprised 83% of all assets of corporate pension funds. Of the $18.4-billion of corporate securities so held, $6.7-billion were in common and preferred stock and the rest in corporate bonds. The trend of recent years toward greater pension fund investment in common stock continued in 1958, when 27% of assets, based on book values, was in this form. Based on market values common stocks comprised 39%.

In 1958 the book value of the assets of private pension funds reached $39.3-billion, of which $22.1-billion were in non-insured corporate funds and $15.5-billion in insured pension reserves.

Whereas life insurance companies use the real estate field to invest pension funds, pension trustees have largely ignored mortgages because of the greater costs of administering such investments and the larger staffs required. A number of trustees, however, have invested in large mortgage loans on income-producing real estate, sale-and-lease-back agreements related to big commercial buildings and oil payment contracts. Many trustees, moreover, have made pension fund investments in corporate securities purchased privately.

A 1959 A.B.A. publication, available from the Savings and Mortgage Division, deals with pension fund investment in federally insured and guaranteed loans through correspondent banks.

Ten Pension-Fund "Big Board" Favorites

In 1955 the 10 leading common stock issues held in the aggregate by 1,024 pension trusts in banks in New York State were as follows:

Company	*Aggregate market value of combined holdings ($ millions)*	*Percent of outstanding issue held by banks*
Socony Mobil Oil Co.	50.3	2.64
J. C. Penney & Co.	49.4	6.95
General Electric Co.	39.6	.98
IBM Corp.	38.4	2.58
Standard Oil Co. of N. J.	35.6	.48
Texas Company	35.3	1.49
American Telephone & Telegraph Co.	33.4	.39
Westinghouse Electric Co.	29.0	2.22
General Motors Corporation	27.6	.30
International Paper Co.	25.6	2.80

SOURCES *Pension and other employee welfare plans,* Superintendent of Banks, State of New York, 1955, p. xii.

Considerations in Administering Pension Trusts

VARIOUS problems and policies must be considered by a bank which contemplates undertaking the administration of pension and profit-sharing trusts. A thoughtful analysis of these questions was presented to The Stonier Graduate School of Banking at New Brunswick, N. J., in 1958 by William F. Lackman, vice-president of the present Morgan Guaranty Trust Company. In his lecture, which is the basis of this article, Mr. Lackman discussed the subject under five headings, to wit:

The decision whether to undertake the administration of such trusts.

The nature of the investment powers to be sought.

The purchase of securities of the employer company.

The performance of duties not of an investment nature.

The establishment of a fee schedule.

In deciding whether to enter into such trust business the bank needs first of all to study the business possibilities. It must try to estimate the size of the potential market, studying the area from which business may be drawn, potential customers, their size and number of employees, etc. Consideration must be given to the competition the bank would face from other local and outside banks, insurance companies, investment trusts or others. The types of local businesses need to be analyzed with care. Are they financially strong? Have they growth possibilities? What are their labor

relations? Are they owned locally or elsewhere?

Having examined these preliminary points, the bank must engage in a little self-examination. It needs to make sure that it has the facilities for soliciting and handling the business. Is the bank large enough in relation to the size of the potential business? Has it or can it get the necessary personnel, competent to solicit and handle the business? And has it the facilities for properly investing the expected volume of funds?

Also, under the heading of facilities, Mr. Lackman lists existing banking relationships with potential customers and the possibilities of establishing banking relationships as a result of the contacts and activities resulting from employee benefit trust work. The bank will need to determine the local or nearby availability of actuaries, informed lawyers, and the like, on whom it may have to call for help. The bank's relationship with possible sources of referred pension-fund business—lawyers, actuaries, and insurance agents—is also a consideration.

Seek Broad Investment Powers

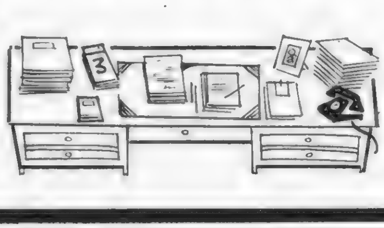
A bank going after pension-trust business should seek the broadest possible investment authority. It should not let itself be restricted to trustee legals or life insurance company legals. Pension trusts are long-term in nature and there must be freedom to invest the funds under varying market conditions. The bank should try to avoid co-trustees and holders of "consent" powers which would tie its hands, but if the company wishes to participate in investment decisions it is better to write the provision in the trust agreement rather than to operate that way on the basis of an informal understanding. Poorer investment results are apt to be obtained where the approval of others, possibly after a delay, must be obtained. Co-trustees are apt to lack broad investment knowledge, and differences in the fundamental approach to basic investment policy are apt to arise where the bank lacks a free hand.

"Direction" trusts should be discouraged. If someone has the power to direct the trustee how to invest the fund, the trustee is really but a custodian and the trust agreement should so specify. In some states, such as New York, it will be hard for the trustee to obtain adequate exculpation from responsibility for acts of the holder of direction power. Moreover, objections to investment actions of the holder of direction power are apt to cause adverse publicity for the trustee because the public may not realize that the bank actually had no investment authority.

If the trustee's powers are to be restricted or if unusual investments are desired, these should be clearly set forth in the trust agreement. The bank must, in any case, be careful in administering such a trust to observe the policies laid down in the trust agreement.

Purchases of securities of the employer company with pension trust funds, if made at all, should be made by the trustee in its sole discretion based on investment considerations alone. The securities should be of investment quality, the holding should not be disproportionately large, and there should be adequate authority in the trustee, which it should not hesitate to exercise, to sell if sale is dictated by investment considerations. The necessary reports on such purchases must be made to the Internal Revenue Service, but the latter's approval does not give the trustee any protection as to the propriety of the investment. Special information concerning such investments must also be included in the annual reports under the Federal Disclosure Act.

In some cases purchase of securities of the employer company is necessary to carry out the purposes of the plan. Thus, in the incentive type of profit-sharing plan, purchase of the employer's securities is designed to give the employees an incentive to increase the company's profits. In savings and thrift plans employees may have the right to have their funds invested in the employer's shares. In such cases the trust agreement should clearly state the trustee's duty to make such investments. Also, the plan should specify that funds are to be so invested.



In the event that the employer company insists on the investment of what the bank considers a disproportionately large share of the pension fund in the employer's securities, the bank should suggest that the trust agreement provide that such purchases shall be made only at the direction of the employer company or someone designated by it, with strong exculpatory language to protect the trustee in the trust agreement; and furthermore, the bank should suggest that the plan so state, thus putting the employees on notice.

Avoid Certain Duties

Mr. Lackman suggests that banks make a strong effort to avoid undertaking duties not of an investment nature, such as the maintenance of employees' individual accounts. Normally the employer company is equipped to perform such duties, and to do so more cheaply than can the bank, which is entitled to a profit. Employers normally do not greatly value such services by a bank, and adequate fee schedules are therefore hard to maintain. Furthermore, certain services, such as actuarial and legal work, should be performed by trained professionals who are equipped to deal with the intricate problems involved in the establishment and maintenance of these plans and the related trusts.

Fees should compensate for the services rendered by the trustee and provide a reasonable profit. They should not be set initially low, to attract business, with the intention of raising them later; but, once established, they should be maintained. The pension fund business should be self-sustaining, regardless of what other banking business the trustee institution may have with the employer. The bank should make a strong effort to control expenses and thus keep its fees reasonable; but the fee schedules should be reviewed periodically and adjusted whenever necessary.

Law Requires Reports on Pension Plans

UNDER the Welfare and Pension Plans Disclosure Act, Public Law 85-836 of August 28, 1958, the administrators of employee welfare and pension benefit plans are required to file in duplicate with the U. S. Department of Labor a description of each such plan and an annual financial report. The law applies to any such plan established or maintained by any employer engaged in commerce or in any industry or activity affecting commerce or by any employee organization in those fields of activity; or jointly by both. The definition includes banks. Exempt are plans covering not more than 25 employees, plans administered by a government, plans of tax-exempt organizations described in certain sections of the 1954 Internal Revenue Code, and plans established or maintained solely to comply with workmen's compensation or unemployment compensation disability insurance laws.

The act requires that copies of the description of the plan, including all amendments, and of the latest annual report be made available for examination by any participant or beneficiary in the plan's principal office. Upon the written request of any participant or beneficiary the plan administrators must deliver by mail a copy of the plan's description and a summary of the latest annual report. For filing with the Secretary of Labor, forms are available from the latter; but their use is optional. Form D-1 is designed for reporting plan descriptions and Form D-2 for annual reports.

Descriptions and reports, whether or not on official forms, must be filed with the Welfare and Pension Reports Division, Bureau of Labor Standards, U. S. Department of Labor, Washington 25, D. C. Descriptions must be filed within 120 days of the end of the calendar policy, or fiscal year, on the basis of

which the records of the plan are kept.

Form D-1 may be obtained from the Division of Welfare and Pension Reports. The D-2 forms are automatically mailed upon receipt of the plan description filing.

Who is the "administrator" who must file the reports with the Labor Department? A. W. Motley, director of the Bureau of Labor Standards, answers this question as follows:

> In determining the person responsible as the plan administrator, attention is directed to Section 5 of the act. This section defines the "administrator" of an "employee welfare benefit plan" as follows:
>
> (1) the person or persons designated by the terms of the plan or the collective bargaining agreement with responsibility for the ultimate control, disposition or management of the money received or contributed; or
>
> (2) in the absence of such designation, the person or persons actually responsible for the control, disposition or management of the money received or contributed, irrespective of whether such control, disposition or management is exercised directly or through an agent or trustee designated by such person or persons.

The reference to exemption of plans covering not more than 25 employees is interpreted in the Labor Department to apply to both retired and nonretired employees covered by a plan. Moreover, Mr. Motley states, it would be safest to read this as including all employees or former employees who are or may become eligible to receive a benefit of any type from the plan or whose beneficiaries may be eligible to get any such benefit.

Whether or not using Form D-2, administrators will need to obtain from corporate trustees or insurance companies information to answer questions in Form D-2 and exhibits called for therein. Forms D-1 and D-2 are based on the requirements of Section 6(b) and 7 of the act. The Labor Department's role is merely to prepare the reporting forms and to make available for public inspection the descriptions and reports filed with the Department. The act confers on the Department no enforcement authority, it being mainly a self-administering disclosure measure. The main responsibility for enforcement rests on the participants and beneficiaries. The Secretary of Labor has no investigative functions; no authority to interpret the statute or issue rulings designed to clarify the law. He has no power to compel use of the forms he makes available and cannot pass judgment on the information submitted.

The act, however, contains both civil and criminal sanctions for violations. Willful violation is punishable by a fine of up to $1,000 or six months imprisonment. The criminal sanctions of Title 18 of the U. S. Code relating to filing false information with the Government apply to any description or annual report sworn to under the act. Moreover a plan administrator may become liable (to any participant in a plan or any beneficiary) in the sum of $50 a day and attorney's fees, if, upon written request of the participant, the administrator fails to reveal details to the participant or beneficiary as the act requires.

Whether a plan subject to law exists, according to Mr. Motley, "is just one of many difficult and complex questions with which the administrators are faced and for which they have sole responsibility for finding the answer." Although the Labor Department lacks authority

to make "interpretations," in an effort to help administrators of plans it furnishes to such administrators nonbinding "advisory" opinions and has prepared a question-and-answer pamphlet which is available free.

May the responsibility for signing Form D-1 be delegated by an "administrator" which is a board of trustees? In the Labor Department's view, each member of the board of trustees is required to sign the plan description form submitted for filing. When a corporation itself is the "administrator," the information required to be published is to be signed in the corporation's name by the person authorized to act in such matters.

The "principal office of the plan" is understood to be the principal office of the plan administrator.

Banks and Self-Employed Retirement Funds

SINCE 1951 successive self-employed retirement bills have been introduced in the Congress. A measure passed by the House of Representatives early in 1959 is at this writing before the Senate Finance Committee, where it faces some opposition. The Administration is opposed, because of the revenue loss anticipated. None the less, Charles M. Bliss, executive vice-president of the Bank of New York, which has shown an active interest in the subject, has predicted that some such legislation will be on the statute books before the present Congress adjourns in 1960. It is therefore appropriate here to discuss some aspects of interest to banks.

The successive bills, backed by the American Bar Association and the American Medical Association, recognize that self-employed persons are presently discriminated against as compared with employed persons who participate in retirement programs enjoying tax exemption. The bills would in general permit self-employed persons to have tax exemption for up to 10% of earned income up to $2,500 in any one year and not more than $50,000 in a lifetime. The deduction would be allowed only if used to pay for premiums in a "restricted retirement policy" or for deposits in a "restricted retirement fund." The former would have to be an annuity or endowment policy issued by a life insurance company. The latter would have to be trusteed to a bank. Funds in such a trust would be exempt from income and capital-gains taxes. The money would however be subject to income tax for the year in which paid out to the owner.

The pending legislation holds out the prospect of new business for insurance companies and banks and trust companies. Elements in both industries are laying plans for capturing some of the business. Insurance companies will have the advantage of nationwide selling organizations, but banks and trust companies have the advantage of being able to invest such funds to a substantial degree in common stocks and thus offer a better "hedge against inflation."

Some trustmen have been pessimistic concerning the possibilities because of the cost of getting the business of large numbers of small clients, whereas insurance companies are in a position to pay attractive commissions to salesmen from the loading charge. Handling pension trusts "wholesale" entails less overhead; yet among some of the larger New York City banks the feeling exists that even the present pension trust business is not profitable. Manpower costs of maintaining and servicing a large number of individual pension funds for the self-employed are feared.

Pooling pension funds in common trust funds would solve some of the cost problems, but for this use the investment provision of the statute needs to be changed. In testimony before the Senate Finance Committee the A.B.A. Trust Division has suggested that the statute be revised "to provide that restricted retirement funds may be invested in assets which are permitted for the investment of trust funds by national banks under regulations of the Board of Governors of the Federal Reserve System issued under Section 11(k) of the Federal Reserve Act."

On the other hand many bankers are optimistic about the possibilities, some even in New York. According to the Merrill Anderson Company, financial advertising agency, "many large trust institutions outside of New York . . . are determined to go after self-retirement business in an aggressive way." And the Bank of New York is already in the forefront of this effort to "get there fustest." It has published a series of reports on self-pensions, has conducted a questionnaire survey among thousands of physicians, dentists, and lawyers, and has introduced the "Special RS Account" for the accumulation of individual retirement savings in advance of the passage of Federal legislation. The optimists view self-retirement trust business as opening the door to other trust and banking business, including estate administration.

Leading banks in a number of cities already have announced their readiness to receive contributions to restricted retirement funds as soon as Congress acts on pending proposals. If, as is hoped, the Congress amends the bill to permit investment in common trust funds or in those of the kind maintained for pooling qualified employees' pension

funds today, the business will get added impetus. Some banks favor setting up a special, balanced fund for self-employed pensions, or a pair of funds—one invested in bonds and the other in stocks—similar to the commingled funds for employee benefit trusts which have been established by some large banks.

Self-pensioning may lead to incidental commercial business for the loan department. Some self-employed persons will wait until after the close of the taxable year to determine how much money they are entitled to set aside for retirement tax-free but may not have on hand the cash needed. This may be borrowed from the bank and repaid in monthly instalments. Others who save as they go may find it helpful to open a savings account for the accumulation of their retirement-fund payments.

In planning to go after self-retirement business, banks must prepare themselves well in advance. The necessary trust instruments must be prepared and the necessary administrative machinery must be blueprinted.

Booklets and other advertising will have to be issued when the time comes and mailing lists for direct solicitation prepared. The bank will have to decide whether to go out after individuals directly or to approach them through their professional and trade associations. The question of charges also must be decided.

The Girard Trust Company in Philadelphia already has announced tentatively that its charges will be ½ of 1%. In Merrill Anderson's view, this charge should cover the bookkeeping costs if entry can be limited to once a year, with savings-account accumulations prior to the entry date and contributions supplied by loans in other cases. Half of 1%, the same source comments, should, as volume develops, also cover investment-management costs, especially if some minimum charge is fixed, say $10 or $12.50. Merrill Anderson adds: "If the customer wishes to make monthly or quarterly payments directly into the fund, in order to gain the advantage of further spread-out averaging, then he should pay some minimum [charge] per deposit to cover the extra posting costs."

While, under the bill, the way is open to associations of self-employed individuals to create retirement plan trusts with a bank as trustee, most self-employed probably will want individual trusts. Since such trusts cannot be individually supervised by the trustee for any reasonable fee, it is important to banking that the legislation when enacted contain provision authorizing investment in collective common trust funds or pooled retirement funds as they presently exist.

Tax Exemption of Pension Funds

PENSION funds qualify for tax exemption if they meet the requirements of the 1954 Code. But a qualified employees' trust may lose its tax exemption if it engages in "prohibited transactions" (described below). If a trust meets the requirements of the code, the employer may deduct its contributions to the trust, and the income of the trust is tax exempt. While an employer may pay pensions directly without forming a trust, the earnings of the reserve would be taxable. It is therefore customary for employers to set up trusts, make their payments to the trusts and have the retirement benefits paid out by the trusts. Alternatively, under a qualified trust plan the employer may buy employees' annuities and then deduct the annuity premiums, if these are based on actuarial cost of the plan or percentages of compensation.

The trust plan may, under the code, provide for pensions in prescribed amounts, profit-sharing, or the payment of stock bonuses to employees. Tax exemption on the income of the trust depends, however, on the trust's being part of a plan conforming to the provisions of Sec. 401. Sec. 401 requires that plans avoid any discrimination in favor of officers, executives, or other higher paid personnel in order to qualify for exemption. To obtain tax exemption a pension, profit-

sharing or stock-bonus trust must be created in the U. S. and maintained as a domestic trust as a part of a plan for the exclusive benefit of the employees or their beneficiaries; and it must be impossible for any part of the corpus or income to be put to any other use until liabilities to employees and their beneficiaries have all been met.

In a qualified trust, contributions may be made by the employer, the employees or both, for the benefit of the employees or their beneficiaries. The plan must benefit either at least 70% of all employees—other than new, part-time or seasonal workers—or 80% of all eligible employees, if 70%—with the foregoing exclusions—are eligible; or else such employees as qualify under a classification found by the Commissioner not to discriminate in favor of officers, shareholders or others. Such groups may not receive discriminatory benefits under the plan. Most of the code's requirements relate to the plan, rather than the trust. In-

deed, a trust itself may be discriminatory, provided it is part of a plan which, taken as a whole, is nondiscriminatory.

A trust may be exempt even when several corporations contribute to it, as happens in a number of state bankers association plans, but the exemption requirements must be satisfied as to each and every participating corporation and its employees.

The plan of which the trust forms a part must be a definite program, communicated to the employees in writing and, as indicated above, must be solely designed and applied to enable the employees or their beneficiaries to share in the capital or profits of the business or to provide for their livelihood after retirement.

Advance rulings and determination letters on the qualification of pension, annuity, profit-sharing and stock-bonus plans are not essential but will be issued by the local director if requested.

Contributions to the trust are deductible only if the employees' rights are nonforfeitable at the time the contributions are made. Employees are taxed on distributions from the trust in the year received, in accordance with statutory annuity rules. Plans which provide benefits only for employees' beneficiaries and not for the employees themselves do not qualify.

To qualify for tax exemption the contribution required of the employee generally should not exceed 6% of his pay, since a higher rate may be held by the Internal Revenue Service to discriminate in favor of higher salaried employees. Racial discrimination in a pension plan disqualifies it from tax exemption.

The code provisions governing funding of past service offer three alternative charge-off methods (Sec. 404 (a) (1): (A), (B) & (C)). The one considered most favorable —according to NABAC—allows deduction in a single year of 10% of the total cost of past service benefits. As the initial past service liability is an interest-bearing item representing a discounted value, liquidation at the 10% rate takes 11 to 12 years, depending on the interest rate assumed.

The minimum total contributions that may be paid into a pension fund by employer and employees must suffice to meet the plan's normal costs plus interest on the initial past service liability. The maximum combined pension and profit-sharing deduction allowed for tax purposes is 25% of the total payroll of those in the plan. With their Federal income tax return, as a justification of the deduction of the employer's contribution, the employer must supply proof that the fund is actuarially sound; which means generally that a qualified actuary must draw up the plan and review it annually.

"Prohibited transactions," referred to above, are listed in Sec. 503 (c) of the code. They relate to dealings between the fund and its creators, their relatives or subsidiary corporations. The fund may not lend to such persons or entities without receipt of adequate security and a reasonable interest rate; pay any unreasonable compensation for personal services rendered by such entities or persons to the fund; pay them a more than adequate consideration for securities or other property; make any part of its services available to them on a preferential basis; sell them any securities or other property for less than adequate consideration in money or money's worth; or engage in any other transaction with them resulting in a substantial diversion of its income or corpus.

Although in the management of the portfolio of a pension fund capital gains and losses are likely to arise, no tax deductions are allowed for contributions to an investment loss reserve. Realized capital losses may require additional contributions to the pension fund and capital gains may reduce the corporate contributions. This tends to hamper switches of investments, excepting where gains offset losses.

Since there are just about as many different bank pension plans as there are banks with pension plans —leaving apart group pension plans —it follows that a merger of two banks, each with its own pension plan, may entail complex problems. This arises not only from the natural desire of the surviving institution to treat everyone fairly but more specifically from the requirement of the code that all employees be treated equally if the trust is to be tax exempt. Accordingly, where in case of merger some employees are under a more liberal pension fund than others, either the benefits accorded one group must be lowered or those accorded the remaining group must be raised.

The two following Internal Revenue Service publications are of interest to banks and others concerned with pension funds:

Regulations Relating to Employee Pension, Annuity, Profit-sharing and Stock Bonus Plans—Treasury Decision No. 6203 (Publication No. 337, September 13, 1956).

Pension Trust Procedures and Guides for Qualification under Section 401(a) of the Internal Revenue Code of 1954 (Publication No. 337, revised February 1959).

These publications are available from the Superintendent of Documents, Washington 25, D. C., at 25 cents each.

Pension Funds' Economic Benefits

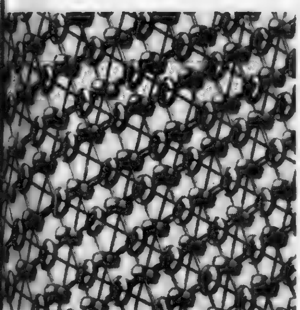
THE primary responsibility of a pension fund trustee is to the trust beneficiaries. But in furthering his responsibilities, he is also helping to channel the flow of savings into the investments where they are most needed, and where they will do the most good for the nation as a whole.

Pension funds . . . are a stabilizing influence. They provide a steady flow of new money seeking investment; they can afford to hold on to their stocks when the market falls, and increase their rate of purchasing when stock prices are low; and their payments to beneficiaries continue in times of recession as well as prosperity.—JOHN D. LOCKTON, treasurer, General Electric Co., speaking before the Western Regional Trust Conference in San Francisco.

Free trial of Recordak Reliant Microfilmer will let you compare with your present equipment, and readily estimate the savings in time and dollars.

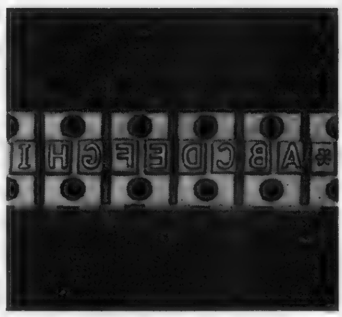
Recordak Reliant Microfilmer does 3 jobs at once!

Photographs automatically. Feed checks into the Reliant's high-speed, automatic feeder, and they're microfilmed instantly—up to 400 per minute. This precision feeder eliminates double feeding — the biggest single cause of missed pictures.



ered Program—magnetic core storage variable-length data and instructions es you fully automatic processing. mpletely flexible, switches automatilly from one job to another. Choice of 00, 2000, or 4000 positions of storage capacities tailored to your needs.

High-Speed Input—reads magnetically inscribed source documents at the rate of 900 per minute. If tape units are added to the system, instructions can be read in from magnetic tape at the rate of 62,500 characters per second. Input from IBM cards is at 800 cards per minute.



High-Speed Output—an exclusive new concept of printing, a horizontally rotating chain, prints high-quality, perfectly aligned copy. A dual-speed carriage permits printing at the rate of 600 lines per minute while skipping blank paper at 27,000 lines per minute.

Who has the latest word on banking?

BANKING displayed over 100 helpful current publications at this year's A.B.A. convention.

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

Business Building Bulletin

DECEMBER 1959

Public Relations Alert

JOHN L. COOLEY

Replacing (for this month only) the Bulletin's regular "Ideas at Work" feature, this story on the 1959 Financial Public Relations Association convention puts the emphasis on actual bank experiences reported to the delegates.

NEW FPRA TEAM. *L. to r.*, President Reed Sass, vice-president, Fort Worth (Tex.) National Bank; First Vice-president Jordan J. Crouch, vice-president, First National Bank of Nevada, Reno; Second Vice-president John P. Anderson, vice-president, First National Bank of Passaic County, Paterson, N. J.; Third Vice-president Ernest G. Gearhart, Jr., vice-president, First National Bank of Miami; Treasurer Robert A. Baehle, vice-president, National Boulevard Bank of Chicago

THE tall Texan on the ramp at the Homestead Air Base was Reed Sass, brand new president of the Financial Public Relations Association. Behind him were the sight-seeing delegates at FPRA's convention at Bal Harbour, a short ride up Florida's east coast. In front, squatting on the vast concrete strip, inanimate B-47s frowned as they waited for the word that would give them life.

Reed Sass said it: "Go!"—and everything went. Crews rushed from their trim barracks, popped into little trucks, and were whisked to the heavy-laden bombers. In almost less time than it takes to scan this paragraph, the air was exploded by the awakening of many jet engines, and before you could say "public relations" Homestead was in another of those highly realistic alerts that help keep aircraft of a potential enemy on the ground.

This looked like PR at its best. Here was SAC doing a sales job on some canny practitioners of that art, and it had topped the demonstration by giving FPRA's head man the distinction of becoming the first banker to set an alert in action.

"Peace is our profession," says SAC.

Well, BANKING'S reporter offers the observation that the boys are doing all right in public relations, too.

Ideas at Work

Come to think of it, "alert" is a pretty good keyword for this 44th annual meeting of FPRA. The men and women whose job is to sell banking services and educate the public in the financial facts of life spent their five convention days at the Americana Hotel on the lookout for the ideas that are the raw material of public relations. They succeeded, of course. But the search was not one-sided; the 1,400 delegates gave as well as took. In more than 75 clinical sessions they exchanged experiences in such diverse areas as officer call programs, revolving and charge-account credit, newspaper advertising and publicity, staff training, savings, mortgage and trust services, instalment credit, community relations, employee relations—name it and this convention had it.

TWO PRESIDENTS—A.B.A.'s John W. Remington, *left*, and FPRA's outgoing top man, E. T. Hetzler

The association's 1958-59 president, E. T. Hetzler, vice-president, Bankers Trust Company, New York, packed the organization's philosophy into a capsule when he said: "We believe—and we can prove—that ultimate success rests in consideration of our customers. And we believe—and we can prove—that if one of us has a good way to do something for a customer, it is good to share the knowledge with the rest of us. It is not only good, it is profitable."

Remington's Message

Alertness is also a word for the message brought to the convention by John W. Remington, president of the American Bankers Association. In his first speech as head of A.B.A., he emphasized the importance of bankers being alert to their opportunities for fighting inflation.

"It is up to us," he said, "to help protect the value of the dollar through our actions and to seek to broaden the public's understanding of the causes and results of inflation. Dangerous inflation can and must be avoided. . . . It seems to me rather basic that banking's personnel and official family must thoroughly understand the situation and must be well informed as to its possibilities.

"We who represent the financial institutions," continued Mr. Remington, "can do much to dispel the notion that inflation is inevitable, that inflation is certain to be with us as part of our way of life. It can be demonstrated that financial soundness and monetary responsibility on the part of individuals, families, and business enterprises of our community and of our municipal, county, state, and Federal governments can halt inflation in its tracks, that productivity is the key to prosperity without rising prices, and that the age-old and once time-honored virtue of thrift is still a valid concept."

Mr. Remington reviewed A.B.A.'s efforts to mobilize public opinion against inflation. The program being conducted by the new Committee for Economic Growth Without Inflation, he said, is designed for the entire banking business. It is being implemented by educational materials for a wide variety of audiences and readers, and includes the recently published brochure, "A Banker Discusses Inflation, Credit Control and Interest Rates," designed for staff educational programs and for public distribution.

A Sampling of Case Studies

A report on what went on at nearly four score meetings is, of course, impossible. At one time or another everybody—or almost everybody—talked. But inasmuch as the program was essentially a presentation of case studies—"we do things this way"—BANKING selects several of these, based mostly on banks' actual experiences. Frankly, we're saving for later issues accounts of business development activities gleaned from talks with delegates. Meanwhile, here's the sampling.

Braindusters

This idea was offered by President Remington. His bank, Lincoln Rochester Trust Company, finds that a braindusters conference is an excellent means of acquainting officer personnel with the details and procedures of other jobs and departments.

The plan started several years ago. Officers go out of town for an annual weekend free from phone calls, family ties, and interruptions—and therefore open for a study of the bank's progress. Papers are read by various officers and department heads; variations in the program include speakers, panel discussions, skits, and workshop sessions, with every participant a member of the bank's own family.

Pointing out the benefits of the conferences, Mr. Remington said they had provided a better understanding of the bank's workings, and of policy and management decisions. They have also created "a greater sense of belonging and accomplishment" and brought closer personal acquaintance among the officers. They are, in short, "an excellent tool of communication." Furthermore, the reports of the meetings have provided source material for innumerable staff conferences.

Stockholders for Lunch

Mr. Remington also reported his bank's successful experiment with a different type of stockholder meeting—again with a view to improving its line of communication with these important people.

The bank last year invited its owners to a luncheon at a hotel near the main office. The invitation said reports on the bank's condition and on its earnings would be presented; the formal stockholders' meeting would precede the lunch.

More than 1,100 of the 5,700 stockholders accepted. The management

committee and public relations officers ushered the guests to their seats—a personal touch that worked well.

The chairman and the president were the only speakers; they reviewed important developments of the past year and touched on future planning. This formal part of the program was over by 2 o'clock so that those who had other engagements could leave; but 500 stayed for a question and answer period.

The meeting had wide newspaper publicity; in fact, it made the first pages.

"We do not plan to hold a stockholders' luncheon annually," said Mr. Remington, "but have concluded that it can be repeated in three to five years or when some major development takes place which might have unusual significance for stockholders."

Officer Call Programs

SALES KITS. Use of this equipment by the officer soliciting new business was outlined by William R. Kennedy, vice-president, Union Market National Bank of Watertown, Mass., which has followed the method for a number of years. The kit or manual is usually a loose leaf binder. Two types are in use: presentation and reference. The presentation method reviews the entire manual with the customer or prospect. Material may include: information and services, comparative growth statistics, latest bank statement, list of officers, information about the community, notes to stimulate conversation, comparative charts.

8 OLD PROS—Answering questions at this clinic were these veteran PR-men. *Front row, l. to r.*, Orrin H. Swayze, executive vice-president, First National Bank, Jackson, Miss.; I. I. Sperling, vice-president, Cleveland Trust Company; Victor Cullin, vice-president, Chicago Title & Trust Company; Merrill Anderson, president, Merrill Anderson Company, New York. *Second row*, S. H. Chelsted, president, ThriftiMatic Corp.; Robert W. Sparks, executive vice-president, Bowery Savings Bank, New York; W. W. Delamater, vice-president, Provident Tradesmens Bank & Trust Company, Philadelphia; Robert Lindquist, vice-president, Harris Trust & Savings Bank, Chicago

Banks using the reference manual don't follow a uniform plan of presentation. The material can be identical with that in the presentation kit, but it's used differently during the interview. The reference kit generally contains material and services the bank likes to promote. One bank includes a comparative chart on the cost of borrowing money from a finance company and from a bank. (This is a good public relations tool.) A copy of the bank's service charge schedule can also be included.

INFORMATION FOR SALESMEN. The First National Bank of Little Rock gets most of the information for its business development cards from the bookkeeping files, said Harry L. Snider, Jr., assistant cashier. This bank has no central file, but the bookkeeping records provide the basic facts about a customer. The First insists on written reports which are recorded on the BD cards with date and name of the calling officer. The system sets up calls on the largest account at 6-month intervals; smaller ones are visited less frequently.

The bank also has a "hot card" system that eliminates the possibility of a major account being ignored for a long time. When an officer has had a BD card for 90 days, it is called in and the account gets immediate attention.

KEEPING UP. A fool-proof system for following-up on prime prospects was outlined by Ashton J. Albert, assistant vice-president, Trust Company of Georgia, Atlanta. On the theory that the No. 1 problem was equipping the call officers with the proper ammunition, this bank placed the call program on IBM. It can now quickly furnish officers with a list of accounts and prospects in their divisions.

The data are given to each senior vice-president so that he may review them with the men in his division. On the first day of the month the division chief gets the calls, on IBM cards, that are to be made during the period. After the call the card is returned, properly filled out. The method has systematized the program; major customers and prospects are not overlooked.

FLEXIBILITY. City National Bank and Trust Company, Oklahoma City, keeps its call program flexible so that all officers, including operations men, and sometimes

At luncheon for faculty, graduates and students of FPRA's School of Financial Public Relations. Director Preston E. Reed presided. Pictured are 3 graduates of school's first class, V. Virginia Lyons, Union Trust & Deposit Co., Parkersburg, W. Va.; Kate Talbot, Commerce Union Bank, Nashville; Roy H. Gibbs, First National Bank, Orlando, Fla.

COMMERCIAL DEVELOPMENT CONFERENCE. Speaking is Lawrence D. Pritchard, vice-president, Bank of America, San Francisco; Others, *l. to r.*, L. J. Smotherman, assistant vice-president, First Wisconsin National Bank, Milwaukee; Gordan M. Mahlen, assistant vice-president, First National Bank, Minneapolis; Marchant D. Wornam, vice-president, First & Merchants National Bank, Richmond, Va.; R. Kirby Whyte, vice-president, Indiana National Bank, Indianapolis

the tellers, can go out, said Frank R. Swan, executive vice-president. To stimulate performance, City posted a chart giving the name and number of calls for each officer. This method was successful, and now the weekly assignments are carried out on the men's own initiative.

Encourage the officer to take plenty of time. A handshake and some talk about the weather just aren't enough.

WHO SHOULD CALL? The St. Joseph Valley National Bank, Elkhart, Ind., sends out only officers interested in the program and sympathetic with it. Vice-president Eldon F. Lundquist said the bank has eliminated those who, by job or by nature, will not perform a real service. Also, the bank believes the calling officers should not be overburdened; quality rather than quantity is the aim. "We are interested in making calls, not paying visits." Two calls are assigned to the man at one time; they are not required to finish them within a definite period, and get new cards as they file completed cards.

Laggards are stimulated by a board in the directors' room labeled "Sales Team Effort" listing the names, assignments, and completions. It's a reminder in a strategic location.

This bank encourages teams of two men; the method adds prestige to the calls, and assures more complete answers to questions.

Check Credit Plans

NEW BORROWERS. First National Bank & Trust Company, Oklahoma City, has found that this type of loan appeals to the doctor, dentist, and school teacher, reported Vice-president Theron D. Elder. Also, any man who travels by car likes it—salesman, auditor, district supervisor—because he knows that the bill for an expensive breakdown away from home must be paid.

First National originally required payments monthly on a basis of one twelfth of the total commitment, even though the full amount wasn't borrowed. This caused the borrower to hold down the amount of his monthly payments, thus reducing use of the account. The bank recently changed the requirement to one twelfth of the amount borrowed, rather than of the total commitment. "It is too soon to tell if this has been helpful, but we feel sure that it will be."

"YES" BANKING. The City Bank of Detroit regards revolving check credit as "Yes" banking—an opportunity to be emphatically affirmative to the customer, said Assistant Vice-president Walton B. Moore. Check credit, he believes, is here to

The Money Is One Flight Up

On the theory that the main floor is the most valuable space, Chase Manhattan Bank, New York, in planning a new branch, decided to use that area for officers' desks and rooms where customer conferences can be held in private.

The teller space is one flight up, by escalator. The bank figured that people don't object to going upstairs so long as everyone has to make the same trip. But they do lift their eyebrows at going downstairs, as though to a bargain basement.

Anyway, Chase Manhattan's newest and largest office, at Park Avenue and 55th Street, occupies five floors, providing private offices, reception rooms, dining rooms, kitchen facilities, and lounges. The second floor banking room, where the services are, is two stories. Decorations and architecture are modern throughout.

First floor of new Chase Manhattan office, where commercial business is handled. Tellers are upstairs

stay. Although it's the most controversial banking service in years, it is also the most glamorous, with built-in sales appeal.

Advertise it big and it will go over big, counseled Mr. Moore. Do your planning well in advance of your announcement. City got 2,500 applications from the coupon in its first ad; early rejections ran about 50%. Today they're about 20%.

This bank uses the First National Bank of Boston plan, handling the business on IBM equipment with monthly accounting. Advertising has been light since the first announcement.

Charge Account Banking

POINTERS. William G. Fish, vice-president, Irwin Union Trust, Columbus, Ind., suggested practices to follow if this program is to be successful.

Analyze your market and estimate the potential. Study size of the community, retail volume, volume of accounts carried by the merchants, proximity to larger cities, and competition for the charge account dollar. Get the larger and better stores for original members, if possible. Their volume and support will improve your chance of success. Make your customer coverage thorough and broad. Consider putting a woman in charge of the service, and give her freedom to operate it. Advertise fully—perhaps in cooperation with member stores. Keep a close liaison with the stores through their management and sales personnel. Watch expenses closely and try to incorporate the handling of this service into existing procedures.

ADVANTAGES. One banker's reasons for liking charge account banking were offered by Clarence R. Mead, president of the Security Bank, Lincoln Park, Mich., which now has 500 merchants in its plan and a prospective 1959 volume of over $3,000,000. The program, he said, helps the community, particularly the small businessman. It helps the bank, developing new business and collateral business; also, it's profitable and it assists the individual.

Merchandising Methods

SOMETHING NEW IN SAVINGS. Philadelphia Saving Fund Society, seeking a new pattern of behavior for the non-saver by making saving less difficult and by "creating a discipline through the account rather than by demanding it from the individual," has started to accomplish this purpose through two new accounts. Vice-president Granville S. Morgan described the program briefly. Adapted from this bank's successful "of-the-month" clubs, they are the Coupon-of-the-Month Account and the Coupon-of-the-Week Account. They are basically regular savings accounts with a built-in feature of discipline.

When an account is opened the depositor gets a booklet containing 12 deposit tickets which he dates. These represent due dates for his deposits—bills he engages to meet. "Once he has opened this account," said Mr. Morgan, "he has morally committed himself to save and to meet these due dates. The self-discipline to put money aside is taken away from him. The discipline now lies in this booklet of dated deposit tickets."

In six months PSFS has opened about 1,000 accounts, "Will it work? We don't know honestly, yet. . . . We know we are riding the coat-tails of a popular way of buying and merchandising," Mr. Morgan told the FPRAers.

Peter D'Amico was the lucky young man in a drawing at the new Scottsdale office of First National Bank of Arizona. He got his $200 from Manager Eric Lucas, *left*, and was congratulated by Town Marshall Bill Downing

INCENTIVE PROGRAM. First & Merchants National Bank, Richmond, Va., has a successful cash award program for employees. Here's the schedule of payments: Regular checking accounts, $1 to $10; special checking accounts $1, regardless of initial deposit; savings account, $1 to $10; safe deposit boxes 40 cents per $1 rental fee; travelers checks, 50 cents to $4; instalment loans, $2 to $10; revolving credit, $2 to $5; trust services, $10 minimum for any service with final award for each sale determined by the awards committee. Fifty cents is added to each sale made by staff members in non-contact positions.

The program, reported by Vice-president Marchant D. Wornom, is conducted by 20 sales supervisors, each of whom directs a staff sales group. The supervisors report to a sales training committee which formulates and executes policy.

There's a sales manual, supplemented by training classes attendance at which is mandatory. A uniform lesson plan, prepared by the training committee, is used by the instructors, who are junior officers.

During eight months, Mr. Wornom said, 245 employees have made at least one sale. Total sales of 2,240 produced 1,619 initial demand and savings deposits totaling $1,103,940; 373 instalment loans, $546,456; 129 safe deposit box rentals; 111 travelers checks totaling $28,000; 9 trust accounts approximating $2,500,000. Cash awards totaled $4,225

and other costs have not exceeded $1,000.

SPECIAL PROGRAMS. In addition to its widely known annual conference of correspondents, The First National Bank of Chicago has an annual December luncheon for the top officers of businesses. Speakers for the principal lines of industry give 5-minute talks on the outlook for the next six months. Then, in June, they forecast the year's last half, this time, however, in booklet form. Copies are mailed to all who attended the December affair.

Vice-president Harold W. Lewis, who outlined the program, said the First had recently started a half-day conference for women. The head of the trust department presides at the first part which covers the objectives of estate planning and a conservative investment program, the latter a visual presentation. At lunch, officers who have some connection with women's accounts are at the head table. The president of the bank presides and senior officers talk briefly. The press is invited to these events.

INSTALMENT LOAN NEW BUSINESS. One of the best producers of goodwill and over-the-counter loans at Seattle-First National Bank, said Gus Asplund, assistant vice-president, is a direct mail campaign to customers after they pay off their contracts. When a loan is paid, an officer screens the record. If it's satisfactory the customer is so advised and is invited to call on the bank for his next loan.

Names and addresses are provided by the branches and the letters are typed at the main office, returning to the branch for signature and mailing. Follow-up letters go out after 60 days and again in six months if a loan hasn't been made.

Although the practice is on the expensive side, the bank has found that in two years its over-the-counter loans have increased 20% in volume annually.

ALL IN THE FAMILY. Suggestions for widening communications between the bank and its directors, advisory board members and stockholders were offered by Walter J. O'Donnell, president, First National Bank, Arlington, Va. How about a monthly news letter or bulletin of not more than two pages, containing comments on the services, reports on the bank's participation in community affairs, and an editorial on important current events? Season it with a few jokes and light copy.

Try sending out a questionnaire asking for comments and suggestions on bank operations and practices. Poll the bank family on their plans for future investments, purchases, and interests. Divide your family into interest or professional groups. Have separate luncheons for each. Outline your program and objectives. Suggest that they give associates and friends information about the bank's services.

And remember — "Never ask for advice unless you want it and will recognize it."

Bank Has Finance Seminar for Officers

A WEEK-LONG seminar on banking and finance was held by The Gramatan National Bank and Trust Company of Bronxville, N. Y., for the officers of the bank and its affiliates. At the daily meetings from 9 a.m. to 5 p.m. the bankers heard lectures and case studies based on the experiences of companies that have faced difficult management problems.

Subjects discussed include modern management's problems and organization; responsibilities of executives and directors; management functions in planning; theory and practice of automation; management functions in directing; insurance risks; effective delegation by management; control of operations.

The program was headed by Hoke S. Simpson, director of executive programs at the Columbia University Graduate School of Business. Jackson Chambers, the bank's president, was among the discussion leaders.

Briefer Mention

Next year's convention is in Boston, Oct. 30-Nov. 3.

The annual School of Human Relations, an old convention feature, was conducted by Dr. A. C. Van Deusen, vice-chancellor, University of Pittsburgh. All the sessions had large audiences.

As first vice-president for the past year, Reed Sass was general chairman. The program chairman was Kenneth E. Johnson, vice-president, Kansas State Bank, Wichita. Donald R. Hassell, assistant vice-president, The Hanover Bank, New York City, assisted by Edward M. Penick, senior vice-president, Worthen Bank & Trust Company, Little Rock, were responsible for the clinics. Ernest G. Gearhart, Jr., vice-president, First National Bank of Miami, was general chairman of the Florida convention committee.

The exhibit of advertising, another convention feature, was in charge of Julian Marwell, president of Marwell Bank Displays, Yonkers, N. Y., and Robert W. Williams, vice-president, LaSalle National Bank, Chicago.

One of a series of ads for Canadian university student papers

A.I.B. Chapter Gives TV Banking Series

TAMPA Chapter, American Institute of Banking, presented a series of nine television programs on banking. Seven consisted of American Bankers Association films followed by discussions by officers of Tampa area banks.

The programs were arranged by Ray McDonald, assistant vice-president, The Exchange National Bank of Tampa. A.B.A. pictures used were: "A Man to Know"; "Pay to the Order Of"; "Using Bank Credit"; "Banking on Farmers"; "Money Talks"; and "Future Unlimited."

MEMORANDUM

To: Banking Department
From: Trust Department
By: Carlysle A. Bethel

Subject: New Business

Straight from his personal experience comes this practical tip on how to build bank business, by the senior trust officer and vice-chairman of the board, Wachovia Bank and Trust Company, and past president of the A.B.A. Trust Division, CARLYSLE A. BETHEL.

IF A BANK is to attain its optimum in size and service, there cannot be one pair of spectacles through which the trust department looks for new business and another pair for the banking department. All personnel should have "business bifocals" so each prospect or customer can be seen as a source of sustenance for both departments.

I suspect that in a great many banks each department goes its own way, does its own job, solves its own problems, and sells its own wares. Meanwhile, the bank fails to get the best thinking on its over-all problems, duplicates many of its management efforts, fails to make a strong impact on the community—and never strikes the rich vein of new business represented by the customers of one department who are not using the services of another department.

Most of the people we serve look upon our banking and trust departments as a single institution. If that's the way they see us, it is regrettable when we take a nearsighted view which embraces only our own work and the services within our own department.

A happy state of coexistence cannot be accomplished by administrative fiat or by issuing executive memoranda. It is up to one department to take the initiative in bringing about a change—in putting "business bifocals" on all departmental officers.

For example, the trust department could strive to give banking colleagues a clearer insight into the nature of trust work by explaining what the trust department does to serve its customers and to acquire new business. In the same process, trustmen will gain a better understanding of the work of their banking associates and how to help them.

We have had a long experience of the most harmonious interdepartmental relationships in our bank. There has been department-wide representation and utilization of talents in the committee structure from the executive and policy level all the way down. Yet there has never been, and never will be, any compromise with the abiding principle of keeping the assets of the commercial and the trust departments segregated. No one can accuse us of self-dealing or of unethical commingling of interests or of violations of confidence.

We've found that meetings between the department staffs from time to time provide the means. They take the mystery out of the work of each department and each is given access to basic information about the other. Then there can be a coordinated effort for business development.

The commercial banking officer will be even more mindful of what is at stake if he is shown periodically the number of accounts and the amount of business which the banking department has received through the trust department. Conversely, he can be shown how bank accounts will be lost if rival trust institutions or individuals are named as executors of the estates of present depositors or become trustees of pensions or other trusts.

A semimonthly report of loans and deposits circulates among the bank officers clearly showing that the trust department is the direct source of many deposits in the banking department. And we find that an amazing amount of new trust business is directly traceable to banking department cooperation.

Our most distinguished sales group is the "Will-a-Month" club; an honor club to which no trustman can belong. Membership is awarded to those officers of nontrust departments who have been instrumental in securing trust business. In the first half of this year, 75 people won entry into the club by producing 144 pieces of trust business.

These details are cited simply to show what can be accomplished by mutual effort. Out of this cooperative climate has come an aggressive team spirit. It has convinced the officers of every department that this is one way to serve our bank, our region, and our customers.

And we must do everything we possibly can to unify and strengthen our individual banks to meet the challenges of competition. We must use the full resources of man-power, mind-power, and money-power under our roofs to sell and serve all the public.

Banker Is Teacher for a Day

This case in point shows how one banker takes his story to some of tomorrow's most important people.

Bill Maddox didn't get the $10,000; not even with all those cosigners. But he and the rest of the students got valuable experience in their visit to the bank as they realistically follow a loan application procedure with banker Roy Downs

DOWN Alabama way the bankers are setting some educational paces—and they don't have their eyes closed to the public relations angles, either. It was the A(for Alabama)BA that got the ball rolling through its Junior Bankers Section. Here's one example of how they did it.

The economics books in the public schools include a section on banking. What could be more logical than to have bankers lend a hand in teaching this material? In this instance the banker-teacher was Roy Downs, president of the Central State Bank of Calera, and vice-president of the First National Bank of Childersburg. The school was Childersburg High School. And the students were the senior class.

Mr. Downs first discussed the project with Principal George Layton. Then they joined Mrs. Alice Pickett, senior class teacher, to work out all the details. The final program included a lecture by "professor" Downs and a tour of the bank.

Because there are 56 in the senior class, it was handled in two sections of 28 each. Both sections covered the same ground but not in the same order. One section heard the lecture and then visited the bank. The other section toured the bank first and then heard the lecture.

Roy Downs learned a few things, too. (1) Give each student an outline of the talk and he can follow the lecture more easily. (2) There's more interest and more questions if the tour precedes the class session. (3) While a class of 28 is about "right," it should be broken into still smaller groups for the bank tour.

An added fillip was the photographer Mr. Downs brought along to record the proceedings. A picture album of the day's activities was presented to the school; a light touch to the captions added humor to the interesting photo story.

Trim and neatly attired Roy Downs formally opens the class with a discussion of the purposes of a bank, but later . . .

As the interest rises and the questions fly, up go the hands and off comes the coat in an air of friendly give and take

BANKING'S Spotlight on—

HOLLIS S. HAGGARD

HOLLIS S. HAGGARD, *Chief National Bank Examiner, has been in the service of the office of the Comptroller of the Currency since 1924. Depression, recession, and thriving good years have all unfolded since then, and the closest view of banking under just about every economic circumstance has been his experience. Here's an outline of Mr. Haggard's career, spotlighted by Herbert Bratter,* BANKING'S *Washington correspondent.*

IF all bank examiners were in the Army, Hollis S. Haggard would certainly be a general, for from Room 3122 in the Treasury Building in Washington, he commands a corps of nearly 1,000 bank examiners, assistant examiners, and clerks. Mr. Haggard, of course, is Chief National Bank Examiner and ranks high on the organization chart of the office of the Comptroller of the Currency, along with the three deputy comptrollers. Of the 984 persons on the rolls of the Examining Division, 946—including 257 examiners and 570 assistant examiners—are in the field. The Washington personnel of the division number 38.

Heads Two Districts

Mr. Haggard not only heads the Examining Division and all bank examining activities but, like the three deputy comptrollers, has general supervision of all office functions and activities with respect to banks in two Federal Reserve districts. These, in Mr. Haggard's case, are the Philadelphia and Cleveland districts. In the latter work, Mr. Haggard is aided by three of the eight assistant chief national bank examiners in Washington.

Mr. Haggard has been in his present position since mid-1955, when he was brought in from the field. His whole working career since leaving school has been with the Comptroller's organization.

He's from Missouri

To be a successful bank examiner takes an inquiring mind. The motto of the profession might well be "Show me." This would be particularly appropriate for this chief examiner, for he hails from Missouri. Mr. Haggard was born in 1905 in Mexico, Mo.—at that time a firebrick and saddle-horse center. After finishing high school in his home town, he spent a year at Rubicam Business College in St. Louis, studying bookkeeping, accounting, and—like his present chief, Ray Gidney—shorthand. When in 1924 the St. Louis national bank examiner's office asked the college to recommend a stenographer to fill a vacancy, he got the job at an initial salary of a little over $1,000 a year.

While typing and studying examiners' reports in the daytime, Mr. Haggard took some evening courses in accounting. After one year as a stenographer, he was made an assistant national bank examiner. There was less formality about such appointments in the mid-Twenties than there is now. Seven years later, in the depression year 1932, Mr. Haggard became chief clerk of the St. Louis office. One of his duties was to check all examiners' reports. During 1933 when banks in trouble had to be adjusted in order to receive licenses, he was a busy man In the morning he would find 25 or 30 bankers in the hall and on the stairway outside his office waiting to see him for a solution of their problems.

As a full-fledged national bank examiner, Mr. Haggard worked out of the St. Louis office from 1934 until 1942, when he was given the Louisville, Ky., subdistrict. In 1944 he was named acting chief examiner in St. Louis, going back into the field in 1945. The next year he became district chief in St. Louis, and in 1950 in the same capacity was shifted to Boston, whence he came to Washington in 1955.

All foreign branches of national banks are examined on the ground every three to five years. In the interim they are examined through the duplicate records kept at their main offices in this country.

Another Deputy Anticipated

Mr. Haggard is the first Chief National Bank Examiner to have to take out time to supervise functions and activities in particular Federal Reserve districts—Philadelphia and Cleveland. He hopes to be relieved of that duty when an additional Deputy Comptroller of the Currency is appointed.

How Mississippi Trains Future Bankers

CHARLES F. HAYWOOD

THE Mississippi Bankers Association entered into an agreement two years ago with the University of Mississippi to provide funds for the support of a program of education and research in the field of bank management. This program was activated in September 1958 with the establishment of a chair of banking at the university. As the program enters its second year, it shows promise of playing an important part in solving the problem of preparing and obtaining future management talent for banks in the State of Mississippi.

Both undergraduate and graduate training in bank management are now offered at the School of Commerce and Business Administration of the University of Mississippi. The undergraduate work leads to the degree of bachelor of business administration, with a major in banking and finance or with a combined major in accountancy and banking. The graduate program, initiated this fall, leads to the degree of master of science in bank management.

Broad Undergraduate Preparation

The undergraduate curriculum in banking includes a broad academic preparation as well as banking courses. The heart of the banking program itself consists of 12 semester hours of courses in the junior and senior years. In the first semester of the junior year, the student studies money and banking, a course similar to courses of this title at other universities and colleges. Following money and banking, there is a course in money and capital markets. The subject of study here is the structure of the various markets for debt and the relationships of the commercial banks with these markets.

In the senior year, there is a 2-semester course in bank management. Major topics covered during the first semester are the legal framework of commercial banking, methods and procedures of bank operations, and principles of the management of bank funds. The second semester is devoted entirely to the study of credit administration and analysis. Included also in the curriculum are courses in accountancy, business law, economics, finance, management, and marketing, in addition to fundamental courses in subjects in the liberal arts.

The requirements for the degree of master of science in bank management include five graduate courses in economics and finance, three graduate courses in bank management, and a thesis in the field of banking. The graduate program affords an opportunity for considerable specialization in whatever phases of banking are of particular interest to the student.

Left to right at the University's computer center are Dr. Charles F. Haywood and students Homer Sledge of Cleveland, Miss., Howard McMillan of Jackson, Miss., and Dale Covington of Ripley, Miss.

No Substitute for Experience

While much can be done in the classroom, there is no substitute for experience. The banking program provides, therefore, for summer employment of students in banks in the state. Although this part of the program is necessarily optional with the student, much emphasis is placed upon the desirability of working for a bank during at least one summer, if not every summer, of the student's college enrolment. Academic credit is not given for the summer work, as it is to be regarded in every way as an actual job. The salary received and the duties performed are left entirely to the bank and the student.

The work program did well during its first summer. The cooperation of the banks in finding places for the students was excellent. Without exception, the banks and the students made favorable reports about the summer's work. More significant, perhaps, than the reports themselves was the number of instances in which the bank and the student ex-

pressed a desire to explore the possibility of permanent employment after the student's graduation from the university.

During the student's participation in the banking program at the university, an effort is made to develop in him a sense of identification with the banking profession in Mississippi. Employment during the summer vacation plays, of course, an important part in the development of this sense of identification. Last February, the senior students attended the association's 2-day bank management conference in Jackson, and the reaction of the students and bankers was so favorable that it is expected the senior students will attend each year's conference. Field trips to banks located near the university and visits by bankers to the campus at Oxford serve further to bring the students into closer contact with banks in the state. Also, information about various aspects of banking in Mississippi is made available to the students through the research activities of the Chair of Banking.

The advantage of developing in the student a sense of identification with the banking profession was well demonstrated when last year's graduating seniors sought permanent employment. Of the 11 seniors completing an intensive version of the program during its first year, seven accepted positions with banks. Only one of these seven students was the son of a banker, and he did not join the staff of his father's bank. Two of the other four students elected to return to the university for master's degrees, and there is little doubt that both of them will be employed by banks in the state upon completion of their graduate training. One student went into the military service immediately after graduation.

Each of the seniors accepting bank employment recognized that he could probably have obtained a higher beginning salary in some other line of work. But the interest in banking was so strong that serious consideration was not given other areas of employment. This is not to say that banks do not need to increase their beginning salaries in order to attract the future management talent they require. However, it does indicate that the beginning salary is not a crucial factor when the student's interest in banking has already been captured.

Salary Lure Is not Enough

The fact that college-level professional training in banking has been a neglected area has put upon the beginning salary the full burden of attracting college graduates to banking as a career. It is well recognized that the bargaining position of banks in this regard is not strong. Moreover, to many college students banking has probably seemed to be a somewhat inaccessible profession, due to the lack of programs of training leading directly into employment in banks. The Mississippi program provides a well defined path for entering upon a career in banking. By stimulating interest in the subject of banking, it relieves the beginning salary of the full burden of attracting college graduates. At the same time, the training provided by the program makes the graduating senior a more valuable addition to the staff than he would otherwise be.

Banking Needs the Better Student

The success of a program of professional training in banking at the college level requires that there should be no doubt about the objective of the program. The objective of the Mississippi program is, without equivocation, to attract to banks in the state a larger number of the better students. The directness with which this objective can be pursued is strengthened by the fact that the association pays the full cost of the Chair of Banking at the university.

DR. CHARLES F. HAYWOOD *is a professor of economics and banking at the University of Mississippi and holds an appointment to the Chair of Banking sponsored at the university by the Mississippi Bankers Association. He has been on the economic staff of Bank of America, N.T. & S.A., and has served both on the staff of the American Bankers Association Research Council and as an advisory member of that council.*

America's Soundest Investment

A.B.A. in Miami

I TAKE it we're trying to travel toward peace and freedom. Regrettably, the road sometimes seems to fork—with one leading toward peace and another toward freedom. Without attempting to provide all the answers, by any means, I would like to offer a few suggestions for your consideration this morning.

My most urgent suggestion is that we somehow try to do a better job of developing citizens who can keep perspective on both ourselves and the rest of the world. It seems to me that we have an almost fantastic tendency to lose sight of the forest the moment we examine the first tree. It may sound—and it may be—a little ridiculous, but I think that we may have a little too much respect for the "expert," too much awe of miscellaneous "data," too much inclination to "survey" or "study" pieces of situations, too much worship of what passes for "objectivity" but is really the lack of nobility in a system of values, too much absorption in the immediate, too little trust in our higher human and national "instincts," too much sensitivity to what others may think of us at the moment (especially the "others" who are most vocal), too little faith in man and too much faith in men.

Ladies and gentlemen, universities are no longer a luxury, if they ever were; they are indispensable, absolute necessities in the second half of the 20th century, operating at once at the highest and at the most fundamental levels of human endeavor. They will be able to discharge effectively their new levels of responsibility only if they are undergirded with new levels of support. This support must come quickly and on a "breakthrough" basis if it is not to be too little and too late. How much support? Enough to raise the annual budgets of our colleges and universities steadily, year by year, from $18.50 per capita in 1957 to $34 per capita by 1970, in constant dollars. Too much? We can't afford it? In 1955, we were already spending $85 per capita on tobacco and alcoholic beverages; $79 on recreation; $87 on automobiles; over $25 on cosmetics and parimutuel betting. I'm not asking that we cut these things out; I'm just asking whether we won't look pretty stupid to future historians if we insist that we can't afford to invest more in education, which is responsible for our great wealth!—DR. ELVIS J. STAHR, JR., president, West Virginia University, Morgantown, West Va.

Prominent bankers seated on the speakers' dais during the dinner session. *Left to right,* R. L. Mullins, president, The Wolfe City (Tex.) National Bank; Dr. Aubrey J. Brown; R. I. Nowell; President Carl A. Bimson; Jesse W. Tapp; S. E. Maxwell, vice-president and comptroller, The First National Bank, and president, Cincinnati Clearing House Association; M. R. Young; and F. George Heidacher, vice-president and cashier, The Central Trust Company, Cincinnati

Financing Our Capital-Hungry Agriculture

Capsule Type Report on the A.B.A.'s Eighth National Agricultural Credit Conference

AUBREY J. BROWN

DR. BROWN, *who is head of the Department of Agricultural Economics, University of Kentucky, Lexington, is a member of the Advisory Council of the Agricultural Commission, A.B.A. He acted as coordinator of the "bull sessions" at the National Agricultural Conference in Cincinnati.*

THE challenge—how to finance a capital-hungry expanding and changing agriculture in the face of declining net farm income. About 500 bank officials, along with some business leaders, college professors, and Government officials tackled this knotty problem at the 2-day session of the eighth National Agricultural Credit Conference in Cincinnati, sponsored by the Agricultural Commission of the American Bankers Association. John H. Crocker, chairman of the board and president, The Citizens National Bank, Decatur, Ill., is the Commission chairman. The 2-day conference was attended by bank officials interested in agriculture from all parts of the United States.

Just as last year when an informal theme seemed to develop out of the conference deliberations on the topic of vertical integration and contract farming, this year much of the discussion centered around the subject of the highly dynamic changes occurring in agriculture and their possible consequences. Not left in the background, however, were considerations of the surplus problem in agriculture, declining net farm income and the increasing problems of the low-production farmer. How banks can help us with the adjustments now occurring in agriculture by the way of better lending policies, an area approach to the problem of agriculture and ways to draw increased funds to agriculture all were major topics for discussion.

An interpretation of what these new farm developments mean to bankers and the increasing importance of livestock in the agricultural economy were analytically described by agricultural economists who carefully follow such changes.

Before the conference was over all attending "got in the act" in a series of "bull sessions" focused on the topic of meeting agriculture credit demands. Seven groups tackled this subject in an enthusiastic and serious manner. These idea sessions were led by banker discussion leaders with college professors serving as reporters.

A Look Ahead

Farmers and ranchers of the United States were paid a high compliment for the magnificent job they are doing in producing an abundance of food and fiber. Reed A. Phillips, Assistant to the Secretary of Agriculture, in the opening address of the conference stated: "Our farm

people are less than 1% of the world's people; yet they produce one-fifth of the world's output of red meat, and nearly one-third of the world's milk."

Major farm problems pointed out by Mr. Phillips were creeping inflation and a continuing cost-price squeeze. The mounting cost of the farm program was also viewed with alarm.

"Creeping inflation helped add a billion dollars last year to farmers' already swollen costs of production and living. It is adding additional millions this year," he said. "The living standards of farm people are not rising as rapidly as otherwise they might.

"Control of inflation requires the cooperation not only of Federal, state, and local governments but also of private firms, organizations, and individuals."

Mr. Phillips expressed the hope that every rural banker would use the booklet recently published by the Agricultural Commission, *Banking and the Rural Development Program.*

Bank Policies on Lending

"The many thousands of banking units which serve the agricultural areas of this country have greatly improved their lending and other services to farmers in recent years," stated Jessie W. Tapp, chairman of the board, Bank of America. Banks have been the largest source of credit financing a rapidly expanding agriculture, but he continued, "Nevertheless, there is no room for complacency, and we must be alert to new opportunities to meet the legitimate credit needs of a growing and changing agriculture."

Mr. Tapp emphasized the following five bank policies as contributing to sound agricultural lending:

(1) "It is increasingly important that the terms of credit be patterned to meet the needs of the individual farmer."

(2) "Farm lenders and commercial farmer-borrowers are both finding it necessary to deal in terms of larger amounts of money than was typical only a few years ago."

(3) "It is commonplace for bankers to talk about financial statements, operating statements, and the like."

(4) "The expanding scale of individual farm operations and the changing manpower requirements in farming also provide banks with new opportunities to be helpful to farmers in connection with estate planning."

(5) "Finally, and perhaps most important in this brief summary, is the matter of competent personnel to enable banks to render appropriate services to their farmer-customers."

He concluded his address by expressing confidence that the banks would continue to be alert to the opportunities to serve farmers.

Nation's Economic Philosophy

"Perhaps the time has arrived when Congress should adopt by joint resolution an official list of all major economic objectives as a means of evaluating legislative proposals in terms of whether or not they advance or retard our progress," R. I. Nowell, vice-president and economist, The Equitable Life Assurance Society of the United States, told the conference in connection with his address on "The Nation's Economic Philosophy."

Mr. Nowell expressed grave concern about the current balance of payments deficit of $4.5-billion annually. The outflow of gold the last few years, according to Mr. Nowell, is not a healthy situation and could affect the stability of the dollar.

In his address he listed seven national objectives which, if taken as a body, would constitute a system for the conduct of national affairs. These were:

"(1) Survival of U. S. as a nation; (2) Preservation of freedom and of respect for the dignity of the individual human being; (3) Reasonably full and steady employment; (4) Growth of the economy; (5) A reasonably stable price level; (6) A margin over domestic consumption and investments for aid to underdeveloped nations; and (7) A balance in our international capital flows account."

Rural Credit Unions

"If commercial banks had been as active in the personal field, from 1900 to 1935 as they are today, probably this movement (rural credit unions) would never have gained a foothold in the United States," stated M. R. Young, president of the First National Bank of Dodge City, Kans.

Commenting that this year is the 50th anniversary of the first credit union law in the United States, Mr. Young traced the growth and causes of growth of the rural credit unions in the United States. This development which originated in Germany about 1849 has now spread throughout both the Western and Eastern Hemispheres. More than 80 countries have requested assistance and information from the Credit Union National Association.

Credit unions in this country have increased from 7,059 in 1938 to 19,166 in 1958, according to Mr. Young and assets have increased in this 20-year period from $147,000,000 to nearly $4½-billion in 1958.

Mr. Young warned of the growing competition of the rural credit union to the commercial banks not only

College deans and professors of agriculture participating in the conference. *Seated, left to right,* J. H. Atkinson (Purdue); Richard N. Weigle (Purdue); Carl Clark (Kentucky); A. T. Anderson (Illinois); J. H. Bailey (Ohio); Frank Miller (Missouri); and W. W. Armentrout (West Virginia). *Standing,* Harold G. Halcrow (Illinois); A. C. Robertson (Guelph, Ont.); Glynn McBride (Michigan); Robert G. Cherry (Texas A. and M.); Aubrey J. Brown (Kentucky); Lester L. Arnold (Ohio); R. J. Becker (Pennsylvania); and R. G. F. Spitze (Tennessee)

for the farm customers but also those living in the rural towns.

Area Development

Community cooperation in planning and preparing for area development and not fancy advertising campaigns attract industry to small towns, according to Jervis J. Babb, chairman, Area Development Committee, Committee for Economic Development, New York.

Reporting on some research recently completed by CED, Mr. Babb stated:

"It may surprise you to know that there are at least 11,000 organizations in the United States trying to promote the economic development of the areas they serve, with combined annual budgets of over $200,000,000. CED has just completed the first comprehensive survey ever undertaken of these local economic development activities, and we expect to issue a report on it shortly after the first of the year. Out of the extensive information we have gathered, four broad points may be helpful:

"First, cooperation is the keystone of economic development. You cannot go it alone.

"Second, many organizations queried by CED reported that the activity needing most expansion was research.

"The third essential is adequate and detailed local planning and zoning.

"The fourth point is that to make a sale, the best results are obtained by direct personal contacts with company executives who are looking for new plant sites."

Meeting Credit Demands

How to serve a capital-hungry agriculture in this period of great agricultural change was the general theme of seven simultaneous audience participation "bull sessions." The writer was coordinator of the sessions. Discussion leaders were officials of banks active in lending to all major types of American agriculture. Reporters for the sessions were professors of agricultural economics from 10 universities.

Some of the highlights of the discussion were concerned with the following aspects of the topic:

Servicing larger loans and providing adequate counseling for farmer-borrowers is the major task for country bankers in agriculture.

Country banks must make greater use of insurance company relationships, correspondent banking facilities, of large commercial banks in cities, and other financial institutions.

Agricultural lenders needed agriculturally trained men. Such men can be taught banking much more easily than can a nonagriculturally trained man be taught agriculture.

The agricultural representative of a bank needs to have authority to make loans if he is to provide the service which is profitable to the bank and adequate for the borrower.

Commercial bankers must do more "package" financing of farmer-customers in the future. By serving short-term, intermediate-term, and long-term credit needs of the farmer from the commercial bank, or in cooperation with other lenders, the farmer can be provided with larger lines of credit and the loan can be serviced more efficiently.

Agriculture in a Dynamic Economy

A banker fully conversant as to the changes occurring in agriculture factually described the major developments in the changing agriculture. Carl A. Bimson, vice-president of the American Bankers Association and president of the Valley National Bank of Phoenix, told the group at the dinner meeting: "Aside from inflation, the tight-money market and high interest rates, the farm economy—especially as it relates to the Government price support program and our huge surpluses of certain commodities — is probably the most talked about problem facing us."

Acreage allotments were criticized as putting a "ceiling on opportunity" but that some solution to problems of the marginal and submarginal farm operators must be found before much improvement can be expected in the surplus situation. In a factual way Mr. Bimson emphasized that the 2,700,000 farms, classified as the marginal group, produced only 9% of the farm products sold, while the middle-income group of 812,000 farms produced and sold about 12%. In the third group of 1,300,000 units, the "efficient farmers" sold nearly 79% of all the farm products.

"While great strides have been made in developing scientific methods for agricultural production, there appears to be a serious lag in the development of good business organization and methods, cost analysis, and record keeping."

Calling attention to the need for new credit concepts Mr. Bimson

also proposed that "the time has come for the banker to place greater importance upon the forecast of the outcome of his customer's operations than on the forecast of the value of his collateral."

Farm Developments and What They Mean to Farmers

Substantial readjustment during the next 10 years will be required for efficient family-farm operations and for adequate income, according to Dr. Harold G. Halcrow, head, Department of Agricultural Economics, University of Illinois, Urbana.

"Output per man-hour is expected to increase by more than 35% in the next 10 years, and the demand for capital by the individual farmer will more than double."

Turning to the farm real estate situation, Dr. Halcrow continued: "A strong demand will continue for real estate loans, particularly loans for enlargement of farms. In recent years in the higher priced land in the corn belt, more than 40% of the land purchased has been for purposes of farm enlargement. The forces bringing about increases in farm real estate values are still working, although tempered by income prospects. In addition, the increase in some cases has been tempered by the productivity of resources substitutable for land such as increased use of fertilizer and other intensifying resources."

As to intermediate-type loans, the speaker stated:

"An even stronger demand will occur for the intermediate-type loans to finance supplies, machinery, and farm improvements. Bankers will need officers who are able to evaluate the needs of individual farmers who can counsel borrowers in their expansion plans. The premium on business analysis and management will increase as capital per farm continues to build up."

Importance of Livestock

"Livestock production has the one unique function as a single and indispensable means of keeping production and consumption of foodstuffs in reasonable balance," Dr. Herrell De Graff, Babcock Professor of Food Economics, Graduate School of Nutrition, Cornell University, Ithaca, told the conference audience.

Dr. De Graff indicated that during the past three decades had livestock production been 2% more annually the so-called crop surplus would have been fully utilized. Would this increase have been disastrous to producers of livestock? "The question does not need to be answered because it is the price support programs themselves that have created the question, just as much as they created the excess stocks of crops that have been built up in Government hands," he said. "This means that if we had not had the price supports, we would not have had the surpluses, we would not have unbalanced the balancing function of livestock, and we would not have stimulated the extra volume of crop production that has become burdensome both to the Government and to livestock producers."

As a concluding remark Dr. De Graff stated:

"Livestock is functioning as the balance wheel, and it can and must in the future. It has been difficult for livestock to overcome price interference and risk reduction which has stepped up the intensity of national-average land use and piled up surplus stocks in Government stock piles. But such circumstances must not be misinterpreted to indicate that the function of livestock is any less important, or that the livestock are not performing their vital function in our agricultural economy."

Correspondent Banking

Members of a panel discussing "Correspondent Banking" agreed that agricultural and industrial development in rural communities go hand in hand. Speakers pointed out that in the expanding American economy, the demand for agricultural credit is exceeding the legal limit of country banks in an increasing number of cases, and it is possible to meet the need better through correspondent banks located in other areas, which can take over lines. Panel members urged the importance of having trained men on city correspondent bank staffs to deal with credit problems in financing farming and related industry.

J. Carlisle Rogers, president, The First National Bank, Leesburg, Fla., moderated the panel, which included: J. W. Bellamy, president, National Bank of Commerce, Pine Bluff, Ark.; Wayne A. Corpening, manager, Agricultural Department,

(CONTINUED ON PAGE 138)

Factors Affecting Farm Land Values

Price-Depressing Elements . . . Land Transfer Financing . . . Values at Record Levels . . . Income v. Real Estate Values . . . Other Market Forces

NORMAN J. WALL

The author is chief of the Agricultural Finance Research Branch, Farm Economics Research Division, Agricultural Research Service, U. S. Department of Agriculture, Washington, D. C.

SOME slowdown, and possibly a halt to the steady rise in market values of farm real estate, now at an all-time high, seems probable in the near future. Although favorable income in 1958 continued to give strength to the farm real estate market through mid-1959, a lower level of farm income in the last half of the year and prospects for some further decline in 1960 are likely to dampen further increases in land values.

Price-Depressing Elements

In addition, the longer range outlook is clouded by uncertainties as to future farm programs, particularly for wheat and feed grains. Higher interest rates and greater selectivity on the part of lenders in extending farm-mortgage credit may also reduce the effective demand for land.

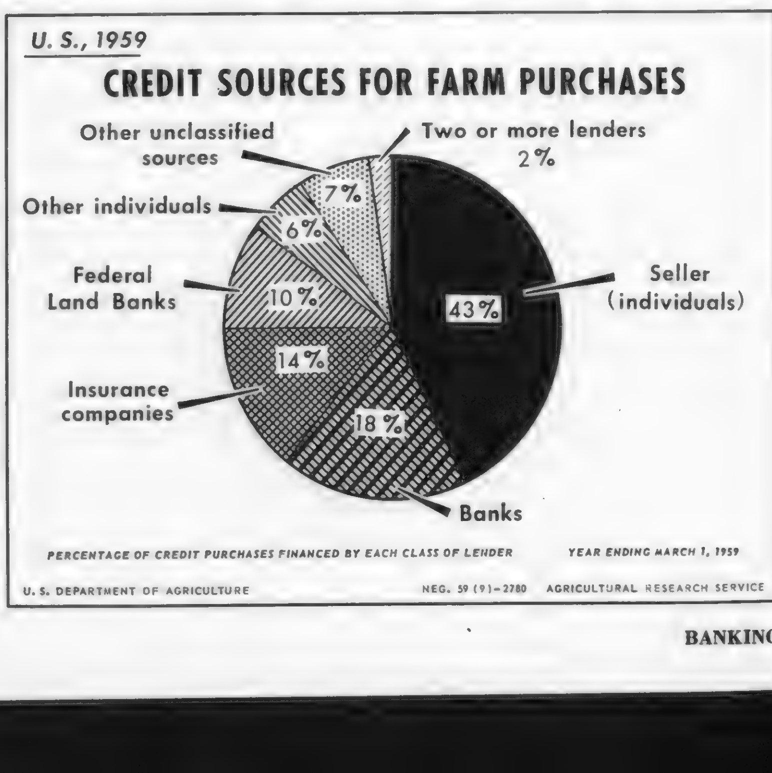
These price-depressing factors will be partly offset by the continuing demand for land to enlarge existing farms for more efficient use of available labor and farm equipment. Despite lower income, there is likely to be sufficient demand for additional land by established farmers to absorb the relatively few farms and tracts that are offered for sale. Further expansion in the general economy, inflationary pressures, and the need for land for nonfarm uses will continue to provide strength to the rural land market.

Land Transfer Financing

About two-thirds of all current farm transfers involve some financing. Sellers are the chief source of credit. In the 12 months ended March 1, 1959, they provided all the credit necessary to finance 43% of the credit-financed transfers of farmland, the same share as a year earlier. Their share of financing, however, has increased since estimates of credit sources were first made in 1955. At that time, sellers financed about a third of the credit transfers.

The seller is not always able or willing to finance the sale of his land. Therefore, if the buyer needs credit, it must be provided by some other lender. The most important of these lenders are commercial banks, insurance companies, and Federal land banks. In the 12 months ended March 1, 1959, commercial banks financed 18% of all credit sales. Since 1955, commercial banks have gradually declined in relative importance as a source of credit with which to buy farmland, but they remain the chief source of credit in the eastern and southern areas of the country. Nearly half of the credit-purchasers in the Northeast and nearly a third in the Appalachian region were financed by local banks.

The tendency for farm purchasers to use bank credit more frequently in eastern and southern areas than elsewhere probably arises chiefly from the fact that in these areas, most land transfers can be financed with relatively small loans and on short terms. These are types of loans which banks are well able to handle. Some additional factors operate in the Northeast. In this area, banks typically hold large savings deposits which can be invested in farm mortgages. The fact that dairy and poultry farming predominate in the Northeast may also contribute to the importance of bank financing in this region. Good management is probably more essential to success in these than in most other types of farming, and



local lenders are in a favorable position to appraise the quality of management.

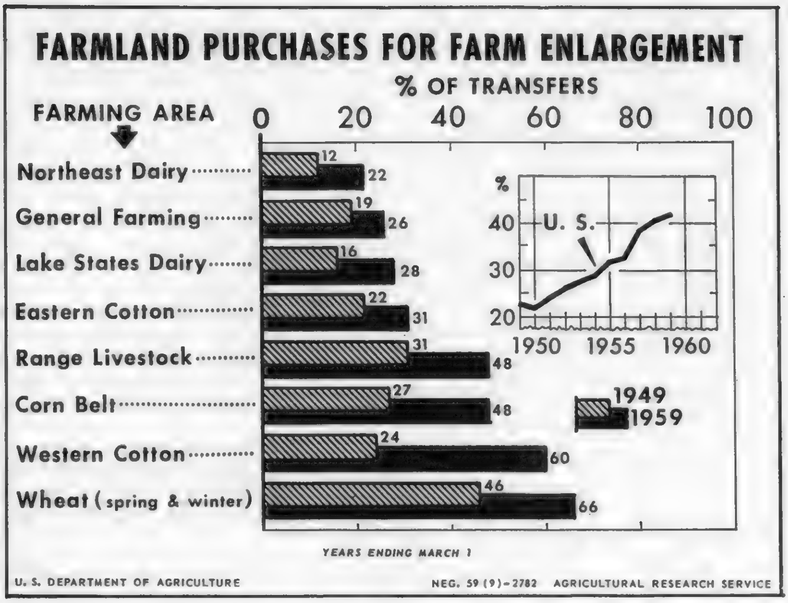
Values at Record Levels

Farm real estate values, which have continued to increase in recent years despite a general decline in farm income, are now at record levels. Values advanced 2% or more in 25 states in the 4-month period ended July 1, 1959. In 23 widely scattered states, values on July 1 were essentially unchanged from the March 1, 1959 level. The national index of value per acre advanced 1% to reach 169% of the 1947-49 average value. Except for the November 1957 to March 1958 period when values rose an equal amount, this was the smallest increase in any 4-month period since July 1956.

The March to July 1959 period is the sixteenth consecutive 4-month period in which farmland values have increased. This upward movement during the last five years can be viewed as a continuation of a long-term trend that began with the recovery from the depression lows of the early Thirties. This trend was temporarily reversed twice during the 26-year period, in 1949 and again in 1952-53. By July 1959, values were four times higher than the 1933 low and 69% above the 1947-49 average.

Florida Has Largest Value Increase

The magnitude of the change since 1947-49 has not been uniform in all states, although values in all states have increased. Land values increased most in Florida (145%), where both population and nonfarm uses of land have expanded rapidly in recent years. Values increased least in some New England states and in Wyoming and Colorado. Severe droughts in the latter two states during the 1955-56 crop season caused some reductions in value at that time. Farmland values in nearby states, notably New Mexico, Nebraska, and Kansas, were also held down by drought in these years. In the Corn Belt, values increased an average of 74%, with the increase exceeding 75% in the three eastern states of the region. Increases in value exceeded 80% in Montana, Minnesota, and three southern states. Elsewhere the increases were smaller, but in 18 states, they ranged from 60% to 80%.



Income v. Real Estate Values

The increase in land values between 1940 and 1951 was the largest for any period of similar length on record, but it still was appreciably less than the increase in farm income in that period. Although land values went up about 2.5 times, realized net farm income went up about 3.5 times. Farm income declined in 1952 and continued downward through 1957, when it was 27% below the 1951 level. During 1958, realized net income increased nearly 20% from the previous year, but income in 1959 is expected to be about 15% below that in 1958.

As a result of the decline in income since 1951 and the continued increase in farm real estate values, the relationship between land values and net farm income in 1957-58 was about the same as the average relationship in 1910-14 and 1920-29. However, the circumstances producing this similarity in relationships differ between the periods. The 1910-14 period showed movements in land values and farm income that were of nearly equal magnitude and direction. The decade of the 1920s was a period in which farm income fluctuated over a rather wide range, while land values held a slow but steady downward course.

The situation in the 1954-57 period, which was characterized by a continued upward movement of land values at the same time as farm income was declining, was unprecedented in the previous 40 years of record. A part of the increase in land values was due to the fact that as late as 1954, land prices were lower in relation to income than they were in the prewar period. Cognizance of this by prospective land purchasers and present owners, plus the opportunity to increase returns from land by applying more efficient techniques of production to land, such as the application of fertilizer, irrigation, and insect and weed control, stimulated the demand for land. At the same time, the market supply of land was restricted because the same conditions encouraged present owners to hold the land. This interaction, together with other factors more regional in nature, pushed values up while actual incomes declined. As a consequence, the gap between income and land values has been more than closed. Expectations of future earnings of land appear to be given more weight currently in land pricing than are earnings in the immediate past. It seems likely that where such expectations of higher earnings to support present land prices exist, they will be realized mainly through the application to land of considerable capital and exceptional management.

Broad National Forces Operate

Other broad national forces have been present in the farm real estate market over an extended period. One such source of strength in the

demand for farmland stems from the basic attitudes and beliefs of people toward farmland. Traditionally, many people have viewed land as providing protection for capital from loss of purchasing power. The high level of general economic activity, increased personal incomes, and inflationary movements in the general price level have intensified these views in recent years. Both farmers and nonfarmers have come increasingly to consider land as a desirable, tangible asset of intrinsic value which offers security in case of either inflation or depression.

The idea that the growth in population will put pressures on our food supply is not new. However, the effect of increasing food requirements on land values is likely to be minimized by technological gains that are known or can be reasonably foreseen. Instead of "food enough?" the question now and during the next generation is more likely to be how our increased production needs can be marketed with returns to agriculture that will be comparable with other sectors of the economy. For, even though our total land area is fixed, we are increasing the quantity of food and fiber that the land produces. Practically all of the gain in farm output in recent years has come about because of increased inputs of non-real-estate capital and management, and these inputs can share in the increased returns.

Other Market Forces

In addition to serving as the basic capital good for agricultural enterprises, land also provides living space for growing population. This is evidenced in the dispersal of the urban population into rural areas. It has built up demand for tracts of farmland or small farms that are uneconomic for full-time farming operations but that can be converted into part-time farms. Nonfarm people seek such farms in order to enjoy the amenities of country living and, in some instances, to provide employment for otherwise unemployed family labor. The high level of business activity and incomes in recent years has facilitated this conversion of land use by making possible such purchases by nonfarmers at an accelerated rate.

Another important use of farmland is its conversion to strictly residential or industrial uses. Although such uses take about a million acres annually, a somewhat larger area is withdrawn from the farm real estate market and held for future nonfarm uses. It is becoming apparent that present demands for land for production and for land for space are two separate components of market demand. In many parts of the country rather large areas of land have been withdrawn from active agricultural use. Apparently, the owners are holding these lands in an "idle" or "ripening" status for possible nonfarm development. Errors in pricing such land probably occur more frequently than in pricing land for strictly farming purposes. Also, when even a few properties are sold for nonfarm uses, there is a "rippling" effect on prices for farmland throughout a farming community. Consequently, many farms may be priced at higher levels than can be supported by prospective farm income.

Another area of demand that has strengthened prices throughout the nation is the demand from farm operators for additional land to permit fuller utilization of mechanization and other technological advances in agriculture. During the 1958-59 sea-

son, more than two-fifths of all farm sales in the United States involved tracts of lands or farms that were added to existing farms. Purchases of this type have made up an increasing share of the market since 1950. In the most recent season, nearly half of these purchases were single farms before sale, while the rest were parcels of land transferred from one farm to another. The relative importance of these purchases varies among areas. The western two-thirds of the country is still most strongly affected.

At the current relationship between values and income, repayment of debts incurred for the purpose of buying land will require superior management or substantial earnings from equity capital or off-farm income. A majority of the farmers who are buying land with which to enlarge their farms are the larger and more efficient operators in their communities. Thus, they have a considerably larger income base than only the land purchased with which to meet debt payments. Nonfarmers who buy land for part-time farms or retirement places, or for investment, usually have income from salaries or wages that could be used to supplement farm income if needed to meet mortgage payments. The purchase of complete farm units by beginning farmers without substantial family assistance is rare.

An additional factor that tends to hold up farm real estate values is the limited number of farms coming on the market. Only about 129,000 farm properties changed ownership by voluntary means during the 12 months ended March 1959 (Fig. 4). Transfers, which have held at about this level for the last five years, are sharply lower than the approximately 300,000 prevailing annually from 1944 to 1947. The relatively small number of farms offered for sale may be due partly to the reluctance of property owners to assume the liability for the capital gains tax that would be involved in event of sale. With the level of interest rates that prevailed until recently, the reinvestment of the sales proceeds of a farm minus the tax on capital gains could yield less than the returns from holding the farm real estate. With the recent sharp upturn in interest rates and the prospect of lower farm returns, the incentive to hold farms off the market is less compelling.

NEWS for Country Bankers

This department is edited by MARY B. LEACH *of* BANKING'S *staff.*

CCC Hikes Bank Rate

THE rate of interest payable on Commodity Credit Corporation certificates of interest issued to banks and other lending institutions participating in the financing of the 1959 and subsequent crop-year-price-support loans was increased, effective November 1, from 3¼% to 4% per year, according to a U. S. Department of Agriculture announcement.

This increased interest rate does not affect the rate of interest charged to producers on 1959-crop-price-support-loans, which remains at 3½% a year.

Lending institutions which have invested funds in 1959-crop-price-support-loans will earn interest on their investments at per annum rates as follows:

(1) For investments made prior to July 1, 1959, 2¾% from date of investment through June 30, 3¼% from July 1 to and including October 31, and 4% thereafter.

(2) For investments made between July 1, 1959 and October 31, 3¼% from date of investment through October 31, and 4% thereafter.

(3) For investments made on and after November 1, 4%.

USDA's Balance Sheet

THE United States Department of Agriculture's Agriculture Information Bulletin No. 214, entitled "The Balance Sheet of Agriculture 1959," includes a wealth of statistics on the assets and liabilities of agriculture.

In addition to giving information on the balance sheet in general, it covers these broad areas of the subject: (1) Influence of the General Economic Situation; (2) Agricultural Income; (3) The 1959 Balance Sheet in Detail; and (4) Appendix, which includes comparative tables of assets and claims for the years 1940 to 1959.

This publication is available from the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.

Agriculture and Economics

THE Federal Reserve Bank of San Francisco recently published a 56-page booklet on *Agriculture and Recent Economic Conditions.* The author of this study is Dr. Boris C. Swerling of the Food Research Institute, Stanford University.

Covered in this study are these main subjects: "Agriculture's Position in the National Economy: The Long View"; "Agriculture and General Economic Conditions: Recent Fluctuations"; "The Economic Condition of American Farmers"; "Some Implications for Public Policy"; "Federal Agricultural Programs: Glossary of Terms"; and "Selected Bibliography."

Agricultural Adjustments Discussed by Earl L. Butz

"THE advance we will experience in the next week will be unparalleled in American agriculture," said Dr. Earl L. Butz, dean of agriculture, Purdue University, Lafayette, Ind., at the Agricultural Breakfast at the 85th annual convention of the American Bankers Association in Miami Beach. "It will be the decade of the most far-reaching

(CONTINUED ON PAGE 86)

Current Agricultural Situation

Farmers' realized net income during the first nine months of this year was at a seasonally adjusted annual rate of $11.2-billion, 15% below the total of $13.1-billion for a year earlier.

Livestock production and slaughter in 1960 will show a gain over 1959. Meat output has been increasing for two years and will probably set a new high next year. Production of all classes of meats will be up, with the largest increase in beef.

The volume of *dairy products* sold by farms probably will reach a new record next year, bringing a new high in cash receipts from the sale of dairy products. Although cost of most items used in farm production will be higher, this may be partially offset by lower feed prices. Net income from the dairy enterprise in the aggregate probably will be at least as high as, and perhaps higher than, 1959.

Supplies of edible *fats, oils,* and *oil seeds* in 1959-1960 will be record large, nearly a tenth above the total for last year.

The total U. S. *wheat* supply for the marketing year beginning July 1, 1959, estimated at 2,404,000,000 bushels, exceeds the previous peak last year by 2% and the 1957-1958 year by about 530,000,000 bushels, or 29%.

From now until mid-1960 total supplies of fresh and processed *fruits* are expected to be moderately larger than in the same period of 1958-1959. The 1959 crop of all deciduous fruits is a little larger than 1958. Production of citrus fruits, especially oranges, is also larger this season.

The supply of *cotton* during the current season is estimated at about 23,700,000 bales. This is about 3,400,000 bales larger than that of 1958-1959. Disappearance during the current season is estimated to be around 14,500,000 bales, or about equal to the 1959 cotton crop.

Prepared by U. S. Department of Agriculture

The specialized experience of two pioneer companies in front-end loaders is now combined...

ALLIS-CHALMERS
—pioneer of the world's first successful hydraulically-controlled crawler-mounted tractor shovel.

result of 14 years' leadership

TRACTOMOTIVE
—one of the first to develop heavy-duty rubber-tired loaders.

result of 11 years' leadership

Now Tractomotive Corporation has become part of Allis-Chalmers . . . and that means we'll be able to serve the needs of the construction industry better than ever. One very important reason is that the specialized experience of each organization in its field cannot be surpassed.

Allis-Chalmers pioneered its history-making HD-5G in 1945 . . . has led the field in crawler shovel design and performance ever since . . . now offers the most complete line of such equipment in the industry, with bucket sizes from 1½ to 7¼ cu yd.

The Tractomotive team has been building heavy-duty wheel loaders since 1948 . . . has consistently pioneered developments of great value to users, including torque converter drive and single-lever shifting control.

Through the combined facilities of these two pioneers, we offer industry's most complete line of front-end loaders, on rubber or tracks . . . with these added basic advantages to back it up!

- another modern plant joins Allis-Chalmers' extensive facilities for manufacturing construction machinery
- a company-wide record of engineering leadership in all types of heavy-duty equipment
- widespread research activity that insures continuing progress
- original factory parts and blue-chip parts control
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The Allis-Chalmers dealer nearest you will be glad to tell you more about this new development, to show you the machines he sells, and to answer any questions you might have. Just give him a call. Allis-Chalmers, Construction Machinery Division, Milwaukee 1, Wisconsin.

This complete line of wheel loaders is now built and backed by Allis-Chalmers

Seven models—34 to 130 hp—up to 9,000-lb carry capacity. Torque converter drive in every model.

move ahead with ALLIS-CHALMERS
...power for a growing world

(CONTINUED FROM PAGE 84)

change in our entire history," he said. "Those who serve the growing area of 'agri-business,' including those who finance agriculture, must keep ahead of these changes or be swept away by the tidal wave of change itself."

Continuing, Dr. Butz stated:

"The present agricultural revolution, resting on basic science and closely allied with the widespread advance of automation in both production and distribution, is threatening the traditional pattern of owner-manager-operator all wrapped up in a single person. This is the very basis for much of today's social and political unrest in agriculture.

"The adjustment through which agriculture is going has five fundamental characteristics. They will merely be listed here, with minimum comment:"

(1) Capital requirements per farm and per worker have increased to the extent that it is becoming increasingly difficult for an individual, during his productive years, to accumulate a sufficient amount to finance an economically sized operating unit. This will become increasingly true in the decades ahead. Moreover, in view of the inheritance tax structure it is becoming increasingly difficult for a parent to transfer such a unit to his son without substantial operating or financial disruption. This means, perforce, that an increasing share of total farm capital will be supplied by nonoperators.

(2) Management has become the key factor in successful farm operation. This is in sharp contrast to a generation or two ago, when the farm unit was much more self-sufficient than now, with much less capital involved, with much less science applied, and with many fewer critical managerial decisions to be made.

(3) The trend toward larger and fewer commercial farm units will continue. This trend has been pronounced during the past decade. It will accelerate in the decade ahead. All the power of government and politics can't stop it. Nor should it.

(4) The commercial farm will increasingly assume the characteristics of a manufacturing establishment, with the manager assembling "packages of technology" which have been produced by others on a custom basis. The share of total farm receipts spent for production items will increase still further, the gross margin per dollar of receipts will become narrower, and profits will depend increasingly on growing volume.

Earl L. Butz

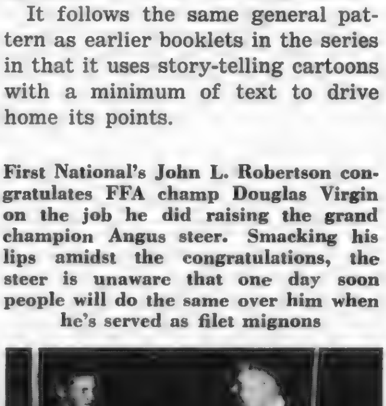
(5) The process of "rurbanization" will be accelerated. Rural and urban cultures will intermingle in countless communities within commuting distance of industrial centers. A new community culture will emerge in which the farmer will tend to lose his vocational identity, just as the lawyer, the doctor, or the machinist now loses his in his own community.

13th Cartoon Book

THE 13th agricultural cartoon booklet has been published by the Canadian Bank of Commerce, Toronto. It is entitled, "A Steak in the Future — Managing the Beef Breeding Herd" and is designed to create wider interest in good management of beef breeding herds.

It follows the same general pattern as earlier booklets in the series in that it uses story-telling cartoons with a minimum of text to drive home its points.

First National's John L. Robertson congratulates FFA champ Douglas Virgin on the job he did raising the grand champion Angus steer. Smacking his lips amidst the congratulations, the steer is unaware that one day soon people will do the same over him when he's served as filet mignons



U.S.-Canadian Wheat Surplus

THE problem of disposing of surplus wheat has now assumed such proportions, such a degree of permanency, and such a potential for intensified conflicts of interests between Canada and the United States, that new and better coordinated surplus disposal methods should be explored, according to a statement of the Canadian-American Committee released by the National Planning Association in the United States and the Private Planning Association of Canada.

The statement, *Towards a Solution of Our Wheat Surplus Problems,* proposes that cooperative action between Canada and the United States be considered at least in the form of a joint program for using wheat surpluses in the two countries for famine relief and special emergency purposes, and possibly in a broader program "which might envisage the establishment of national reserve stocks of wheat in underdeveloped countries."

PENDING the development of any such plan for cooperative action, the committee also proposes various means for improving existing policies and techniques of surplus wheat disposal. These recommendations are based upon two essential principles which the committee states must be accepted in any sound disposal program. They are (1) the disposal of wheat on any concessional terms should not interfere with commercial transactions, and (2) surplus disposal policies must avoid the temptation to seek subtle and ingenious methods of merely getting rid of our countries' surplus problems.

Bank Buys Grand Champion

FOR the 14th consecutive year, First National Bank and Trust Company of Tulsa, Okla., bought the grand champion steer at the Tulsa State Fair junior livestock auction. The bank's annual purchase of the top steer provides financial incentive for youngsters entering the livestock field.

This year, Vice-president John L. Robertson bought the 940-pound Angus steer for $2,500. It was raised by Douglas Virgin, a member of the Future Farmers of America from Chickasha.

BANKING NEWS

465 Crimes Against Banks in A.B.A. Fiscal Year Net Bandits Total of $1,584,949

Women Thwart 39 of 74 Lone Bandits Frustrated by Tellers

Bank robbers are having a harder time making the grade these days, the American Bankers Association reports. And women are playing an increasingly significant role in making the robbers' efforts fruitless.

During the Association's fiscal year ended August 31, bandits succeeded in getting away with loot 268 times, two fewer than in the preceding year. Seventy-eight robbers, faced down by bank employees who declined to be robbed, were frustrated, compared with 59 the year before.

The figures were revealed in the annual report of the A.B.A. Insurance and Protective Committee, whose chairman is Thomas F. Glavey, vice-president of the Chase Manhattan Bank, New York.

Of 274 "lone bandit" holdup attacks, the A.B.A. said, 74 were frustrated — and in 39 instances, women tellers discouraged the would-be robbers.

Lone Bandits Greatest Challenge

The report calls attention to the fact that "in contrast to the bandit gangs which roamed the country in the early 1930s, when as many as 609 banks were held up in a single year, lone bandits have presented the greatest challenge to banking in recent years. Lone bandits threatened personnel in 274, or about 80%, of the 346 bank holdups reported during the past year."

The report shows that "loot taken in the 268 bank holdups during the A.B.A. fiscal year ended August 31, 1959, totaled $1,407,007, which is $214,554 less than total losses of $1,621,561 taken in 270 bank holdups during the 1958 fiscal year. In addition to 78 frustrated holdups, there were 63 attempted burglaries and 56 successful burglaries involving losses of $177,942. In other words, crimes of violence against banks numbered 465 and losses totaled $1,584,949 in the past fiscal year."

In the preceding year, A.B.A. figures showed a total of 431 crimes of violence against banks—270 holdups with losses of $1,621,561 and 38 burglaries with losses totaling $184,406; 59 attempted holdups and 64 attempted burglaries were frustrated.

The report concludes that "this spirit of enthusiasm of bankers to be prepared for holdups should soon show greater results in direct proportion to the effort made."

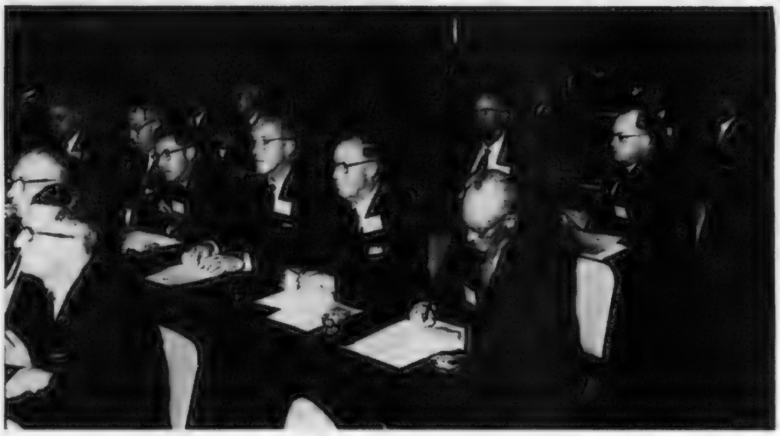


PHOTO BY WEIMAN & LESTER

A 2-day meeting of the Organization Committee and state vice-presidents of the American Bankers Association was attended by the elected and staff officers of the Association. The purpose of the meeting was to inform fully the regional and state vice-presidents of the A.B.A. on the varied scope of Association activities. To this end, all department heads reported briefly on their work. Some of the regional and state vice-presidents are shown with staff officers listening to the discussions

17,690 Banks and Branches Were A.B.A. Members at End of Ass'n Year, August 31

At the opening of the 85th annual convention of the American Bankers Association, the Organization Committee announced that 17,690 banks and branches were members of the A.B.A. The figures were as of August 31, the close of the A.B.A. year, and included 662 mutual savings banks and branches, some of which have since resigned their memberships.

The total membership of 17,690 included 132 members in foreign countries. It represented a growth in Association membership during the year of 87 banks and branches. Included are over 98% of the banks in the United States and 99% of the nation's banking resources.

The A.B.A. has members in every state in the Union and in Puerto Rico, Virgin Islands, Australia, Bermuda, Bolivia, Brazil, Canada, Cuba, England, France, French West Indies, Honduras, India, Japan, Mexico, Philippine Islands, Salvador, Switzerland, Tangier, and Venezuela. In 27 states and the District of Columbia every bank was a member of the A.B.A.

The Chairman

Frank W. Thomas, president, Washington Loan & Banking Company, Washington, Ga., who was then chairman of the Organization Committee, made the report. He has been succeeded, after three years as chairman, by John B. Keeline, president, Central Trust & Savings Bank, Cherokee, Iowa.

THE
AMERICAN BANKERS ASSOCIATION

12 *East* 36 *Street, New York* 16, *N.Y.*

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33 SOUTH CLARK STREET, CHICAGO 3, ILL.

WASHINGTON OFFICE
730—15 STREET, N. W., WASHINGTON 5, D. C.

CREDIT POLICY COMMISSION

CHAIRMAN
WILLIAM F. KELLY, PRESIDENT
FIRST PENNSYLVANIA BANKING & TRUST COMPANY
PHILADELPHIA 1, PENNSYLVANIA

SECRETARY
WALTER B. FRENCH
SENIOR DEPUTY MANAGER, A. B. A.

December 1959

To the Officer in Charge of Credit Policy:

The National Credit Conference will be held at the La Salle Hotel, Chicago, Illinois, on Thursday and Friday, January 21-22, 1960.

This meeting will be of particular importance in view of our current credit situation.

Talks by representatives of banking, industry and government will be in the nature of a forecast for the months ahead. There also will be a panel consisting of Robert Morris Associates members.

The program is designed to give bankers the opportunity of hearing views expressed by representatives of various segments of our economy.

Very truly yours,

W. F. Kelly

Chairman
Credit Policy Commission

Registration forms may be secured by writing to the Credit Policy Commission, A. B. A., 12 East 36 Street, New York 16, New York.

Bank Legislation in 86th Congress Summarized in New Association Book

The Committee on Federal Legislation of the American Bankers Association has published a 30-page summary of "Bank Legislation in the First Session 86th Congress," one copy of which has been sent to each member of the Association.

The booklet describes each bill of direct import to banks or to some phase of the banking business, tells how the bill fared in the Congress, and how it was viewed by the A.B.A. It also summarizes Congressional action on other bills of interest to banking.

For additional copies of the summary or further facts about it, write to the Committee at 730 Fifteenth Street, N.W., Washington 5, D.C.

"The Bankers and Public Affairs" Is A.I.B.'s Public Speaking Contest Theme

"The Bankers and Public Affairs" will be the general theme for the public speaking contests to be held within the American Institute of Banking from March to June 1960, it was announced recently by Joseph Schmedding, of Bank of America N.T. & S.A., San Diego, who is chairman of the Institute's National Public Speaking Committee.

The speaking program will culminate with the 34th Annual National Public Speaking Contest for the A. P. Giannini Educational Endowment prizes in Boston next May. The contest will be held on May 30 as part of the A.I.B.'s annual convention in that city.

The speaking program to choose the participants for the contest in Boston will have three stages, each of which will use a specific phase of the general theme for subject matter. The specific topic for contests within individual chapters will be announced on or about February 1, with the specific topic for the district contests announced on or about April 1. The semifinal elimination, which will be held in Boston on the Sunday prior to the opening of the convention, will use the same subject as the final contest. This subject will be announced following the district contests.

John W. Remington Urges Banks to Back A.B.A.'s Anti-Inflation Drive and to Support Mason Bill

The kind of "unstable stability" experienced in recent months offers no grounds for complacency about the dangers of inflation, said John W. Remington, president of the American Bankers Association, in an address before the annual convention of the Arizona Bankers Association in Phoenix, Ariz. Mr. Remington said:

"Over the past two decades, we have had but two periods of stable prices, the years mid-1952 to mid-1956, and that experienced in the past several months. We have become disillusioned by the kind of price stability we had in the earlier period, and rightly so. It was a spurious kind of stability. Stability was achieved because food prices declined while most other prices continued to rise—uninterrupted. Inflation resumed when food prices stopped falling and rose accompanied, of course, by the continuing rise in other prices.

"The stable value of the dollar which we have experienced in recent months is this same kind of unstable stability. Food prices have declined while other prices continue to climb."

Banks Have Public Responsibility

Mr. Remington, who is president of the Lincoln Rochester Trust Company, Rochester, N. Y., emphasized that bankers have a "public responsibility" to recognize and resist inflationary pressures while promoting orderly economic growth. He urged Arizona bankers to support the A.B.A.'s Committee for Economic Growth Without Inflation, which is leading a new Association effort in this field. He added:

"The program is founded on two major premises. The first is that the problem of achieving the degree of orderly economic progress of which we are capable is one that will remain with us for many years. Among the several developments which can slow down economic growth, clearly the most insidious and most dangerous at the moment —as it may be in the future—is inflation. Inflation stymies orderly economic growth.

"The second major premise is that bankers have a public responsibility to do what they can to promote economic growth without inflation. We cannot in good conscience duck this responsibility. It is twofold. First, as citizens we must deplore and work actively against any development which is harmful to the public interest. Second, we as bankers are more aware than most of the work-a-day difficulties which inflation brings and of its longer run consequences — especially the disastrous effects upon the man-on-the-street.

"We cannot avoid that urgent responsibility to enlighten others of the inflationary danger. It is a responsibility that is thrust upon us by the very nature of our business."

More Equitable Tax Treatment

Enactment of the Mason bill providing for more equitable Federal income tax treatment of financial institutions can be achieved through teamwork and the support of local bankers, said Mr. Remington in an address before the annual convention of the Iowa Bankers Association in Des Moines.

"Our Association will continue to work for correction of the existing unfairness of the tax laws," he said. "It cannot do so without the grassroots support of local bankers. The membership has thrown the challenge to the Association leadership, and it has been accepted. From here on, teamwork will be needed to carry this fight to a successful conclusion. Each of you must do your share by working through your local contacts for the enactment of the Mason bill."

The Mason bill, introduced in the House of Representatives by Representative Noah Mason of Illinois, is pending before the House Ways and Means Committee. Its purpose, Mr. Remington said, is to eliminate "a gross disparity under which commercial banks, on the one hand, have had to pay upwards of 40% of their net income in Federal income taxes, while savings and loan associations have paid 1% and mutual savings banks ⅓ of 1%.

A.B.A.'s National Credit Conference Will Be Held in Chicago, Jan. 21-22

1,000 Bankers from All Sections Hear Rounded Speech Program

The 12th National Credit Conference sponsored by the American Bankers Association will be held at the La Salle Hotel in Chicago on January 21 and 22, 1960, according to William F. Kelly, chairman of the A.B.A.'s Credit Policy Commission, and president, First Pennsylvania Banking and Trust Company, Philadelphia.

The conference, which annually draws an attendance of some 1,000 bankers from all sections of the country, will present outstanding speakers in the field of mortgage finance, instalment and consumer credit, and agricultural lending.

Among the speakers will be John W. Remington, president of the Association and president, Lincoln Rochester Trust Company, Rochester, N. Y., and Under Secretary of the Treasury Julian B. Baird.

Other speakers representing banking, industry, government, and education will also be heard. A panel program will feature leaders of the Robert Morris Associates.

Work in

Here are *some* of the projects now under way in the various departments of the American Bankers Association:

Department	*Type of Study*	*Approx. Completion Time*
Advertising Department	Special series of savings newspaper ads	January 1960
	1960–61 Informative newspaper ad series	February 1960
	Survey of commercial bank advertising (results)	March 1960
	New issue "Timely Money Tips"—statement enclosure	March 1960
Advisory Committee on Special Activities	Semiannual report on *International Financial Developments*	December 1959
Agricultural Commission	National Agricultural Credit Conference Proceedings	December 1959
	Irrigation Financing—a study	Indefinite
A. I. B.	1960–61 Catalog	June 1960
	Textbooks:	
	Bank Administration	January 1960
	Financing Business Enterprise, by Dr. Weldon Welfling, Simmons College	January 1960
	Supervisory Management	1961
	Economics, by Professor A. Anton Friedrich, New York University	1962
	Negotiable Instruments	1962
Committee for Economic Growth Without Inflation	Study on *Policies for Prosperity Without Inflation*	January 1960
	Various booklets and speech material	Early 1960
Committee on State Legislation	1960 Progress Report of Better Banking Legislation and Highlights of 1959 state legislation	January 1960
Council on Banking Education	Banker Education Programs study	February 1961
	Booklet on bank services for high schools	January 1960
	Booklet on banking history for high schools	April 1960
	Investment Fundamentals for banker schools	February 1960
Country Bank Operations Commission	Results of survey of fees for miscellaneous services in banks under $7½-million	January 1960
	Manual—*Simplified Cost Analysis for Smaller Banks*—revision	Early 1960
	Profit planning (budgeting) guide for smaller banks	Spring 1960
	Market research for smaller banks study—in cooperation with Research Council	Spring 1960
Credit Policy Commission	Privately Financed Development Credit Corporations progress survey	A continuing study
	Semiannual survey of banker opinion on business and credit outlook	January 1960
Economic Policy Commission	Revision of Commission's series of six *Monetary Studies*	Indefinite

Douglas G. Herron and Lawrence N. Van Doren Get Staff Promotions

Douglas G. Herron has been appointed secretary of the American Bankers Association's Council on Banking Education, A.B.A. Executive Vice-president Merle E. Selecman announced recently.

At the same time, Mr. Selecman announced the apointment of Lawrence N. Van Doren as assistant manager of the A.B.A. Advertising Department.

The announcement came after the meeting of the Administrative Committee at the Association's 85th annual convention in Miami Beach.

Mr. Herron joined the staff of the A.B.A. in January as assistant to Dr. Murray G. Lee, director of the Council on Banking Education. Previously he had been assistant to the conference and public information director of the National Industrial Conference Board He is a graduate of Brown University, with a B.S. degree in economics in 1939.

D. G. Herron

L. N. Van Doren

Van Doren Promotion

Mr. Van Doren joined the Advertising Department in 1951 as a copywriter and layout man after an earlier career with three advertising agencies and an art studio. He has more recently been concerned with supervisory and administrative duties in the department, whose manager is G. Edwin Heming. He received a B.A. degree from Williams College in 1944.

Progress

(Readers are requested not to write in for these items until their completion is officially announced.)

Department	*Type of Study*	*Approx. Completion Time*
Department of Printing	*Information in Print*—synopsis of A. B. A. publications	April 1960
Employee Training Committee	*How to Train a Bank Proof and Transit Clerk*	Early 1960
	How to Train a Bank Teller	Late 1960
Instalment Credit Commission	Annual study of instalment credit comparative ratios, portfolio diversification, terms, earnings, and expenses	Early 1960
	Bulletin on *Financing Tuition Fees and Expenses*	Spring 1960
	Financing Pleasure Boats by Commercial Banks	Summer 1960
	Automobile Financing Through Dealers—a revision	Late 1960
Insurance and Protective Committee	Booklet on *The Bank Holdup Problem*—reprint of *Protective Bulletin* articles	November 30
Public Relations Council	New *Personal Money Management* film	Early 1960
	Several additions to *Speech Service* for bankers addressing public audiences	Spring 1960
	The Banker Writes—addition to PR manuals	Early 1960
	The Problem Solver—addition to PR manual series	Spring 1960
	Revision of PR manual, *Your Banks Relations with Schools*	Spring 1960
	Educational filmstrip on important role of commercial banks in American economy (in cooperation with Department of Monetary Policy)	Indefinite
Research Council	Booklet on *Internal Analysis of Account Characteristics*	Early 1960
	Booklet on *On the Job Service*—to assist in making savings and consumer loan services available to employees of business concerns at their location	Early 1960
Savings and Mortgage Division	Policy Statement on *Objectives and Functions* of the S&M Division	Winter 1959
	Simplified Cost Analysis Plan for Savings and Mortgage Operations	Early 1960
	Incentive Savings Plans—a revision	Early 1960
	Booklet analyzing *National Housing and Mortgage Finance Legislation*	January 1960
	Study on *National Market for Conventional Mortgages*	Mid-1960
	Study on *The Banks and the Urban Renewals Program*	Summer 1960
	Manual on *Mathematics for the Mortgage Officer*	Summer 1960
Trust Division	Catalog and application blank for The National Trust School	Late 1959
	Handbook on Fiduciary Legislation	Spring 1960
	1959 Personal Trust Assets Survey	Summer 1960

First A.I.B. Chapter Resident Institute of Banking Run by the Chicago Chapter

The first chapter-sponsored A.I.B. resident school for bankers has become a reality in Chicago. The initial 2-week session of the Chicago Resident Institute of Banking, sponsored by Chicago Chapter of the American Institute of Banking, concluded recently. Designed along the lines of the time-tested educational program of the American Institute of Banking, the new school offers the A.I.B. Standard Certificate in two years and the Graduate Certificate after one additional year of study.

Unlike many of the resident banking schools around the country, which make use of the lecture and problem-solving type of curriculum, the CRIB, as it has become known, conducts a textbook-home study type of program, said Grover J. Hansen, executive secretary and educational director of Chicago Chapter. As in the familiar A.I.B. evening study courses, emphasis is placed on material which experience has shown can best give the young career-minded banker the necessary background for his future in banking. Standard Certificate courses, taught in the first two years of the 3-year program, give the student a foundation in the theory and practice of banking as well as in the principles of law, economics, accounting, and communications. The 3-year curriculum includes advanced banking courses and specialized courses in fields closely related to banking. (Picture on next page.)

The New York State Bankers Association initiated the first Resident Institute of Banking in May 1958 and was the first non-chapter group to pioneer in this field.

First Edition of "Banking Education News" Issued by A.B.A. Education Council

The Council on Banking Education of the American Bankers Association, under the chairmanship of Everett D. Reese, chairman of the board, The Park National Bank of Newark, Ohio, has issued its first edition of *Banking Education News* to serve as a clearing house of ideas for banking groups active in the educational field. The bulletin is being mailed to the official family of the American Bankers Association, American Institute of Banking, and state bankers associations' officers. It will be published at irregular intervals—perhaps as often as every six or eight weeks, if developments in banking education result in a volume of news warranting publication.

In its initial issue, *Banking Education News* reviews the study of banker education programs which will be carried out under the chairmanship of Joseph C. Welman, president, Bank of Kennett, Mo., and former A.B.A. president; and Dr. William C. Baughn of the University of Texas as project director

Banking Education News is intended to provide bankers who are officers of state associations, the A.B.A. official family, and members of state banker education committees with a comprehensive report on all developments and new projects in banker education.

Chairman, Vice-Chairmen for A.I.B.'s '60 Convention Named by R. H. Mittendorff

Chairmen of committees for the 58th annual convention of the American Institute of Banking in Boston on May 30-June 3, 1960 have been announced.

Harold E. Randall of First National Bank, Boston, will serve as general chairman. General vice-chairmen will be: Gerard E. Hayes, of National Shawmut Bank, who is immediate past president of the A.I.B.; Ernest S. Johnson, New England Trust Company; Earle O. Latham, Federal Reserve Bank of Boston; Ernest W. Lay, Second Bank-State Street Trust Company; and David T. Scott, First National Bank, who was president of A.I.B. in 1945-46.

Loring C. Munro of First National Bank of Boston will be convention secretary; Stephen H. Dimmock, New England Trust Company, will be treasurer; and John F. Elsbree, Rockland-Atlas National Bank, assistant treasurer.

Leaders of Chicago Chapter and of the National Office of the American Institute of Bankers meet to appraise results of the Chicago Resident Institute of Banking. Seated, *left to right*, Clarence Yonker, executive vice-president, Beverly Bank and vice-president, Chicago Chapter; Dr. Leroy Lewis, national educational director, A.I.B.; M. F. Darr, Jr., vice-president, LaSalle National Bank and vice-president, A.I.B.; and H. R. Frankel, second vice-president, Northern Trust Company and president, Chicago Chapter. Standing, *left to right*, C. S. Battles second vice-president, Continental Illinois National Bank & Trust Co.; Brian Shanahan and R. A. Westcott, both of The First National Bank of Chicago; G. J. Hansen, executive secretary and educational director, Chicago Chapter; M. J. Termondt, assistant secretary, Continental Illinois National Bank & Trust Co.; P. A. Mack, Harris Trust and Savings Bank; T. E. Glim (otherwise not identified); and W. B. Callahan, tax counsel, American National Bank and Trust Co. Story on page 91

• NEWS • Instalment Credit

Independent Credit Cos. Feel Competitive Pressure

INDEPENDENT finance companies are tightening their belts under the pressure of today's high money rates, as the sharp squeeze from an ever-broadening circle of competitors precludes passing rising costs on to consumers in the form of higher rates. According to a panel of six sales finance executives who spoke during the American Finance Conference held last month in New York, **the next year should be a strong one for the economy as a whole although they would not be quite so optimistic for their own industry in general.**

Although terms are not expected to change, an upgrading of paper is being attempted as one way of cutting down collection costs.

As the pressure from credit unions increases and the bogeyman of another automotive manufacturer's credit organization looms on the scene, the group implied that other areas of instalment financing were going to have to be strengthened to balance the tightening auto finance situation.

Captive finance companies were singled out as a major threat to the small finance industry, the independence of dealers, and the national economy.

The group agreed that consumers are in pretty good credit shape, and that even in presently steel-struck areas delinquency rates have increased only slightly and are nowhere near the 1958 recession rate.

Panelists included: Maxwell C. King, president, Pacific Finance Corp.; Clarence L. Landen, president, Securities Acceptance Corp.; Edwin P. Latimer, president, American Discount Co.; David D. Steere, president, Allied Finance Co.; F. R. Wills, president, General Acceptance Corp., and E. F. Wonderlic, president, General Finance Corp.

Law Loosens Loan Limits

PUBLIC Law 86-251 (H.R. 8160), enacted on September 9, makes some important changes in the borrowing and lending powers and organization of national banks, according to the A.B.A. Commission on Federal Legislation.

This measure in part prescribes a limitation of 25% of capital and surplus on the total amount of negotiable or nonnegotiable consumer instalment paper bearing a dealer's full recourse endorsement or unconditional guaranty, which may be acquired from a dealer—with the proviso that the 10% limitation applicable to the maker of a consumer instalment credit obligation will be the only limitation if a bank officer certifies in writing that the bank has information about the credit status of the maker and is relying primarily on the maker.

In other words: the amount of full recourse paper that may be ac-

Make your budget happier with an

APPLIANCE LOAN

NAME OF BANK

"National Appliance Promotion" material, mentioned in last month's BANKING, is still available to banks although original plans limited it to November 9-21. Due to steel strike situations which had made the availability of appliances an unpredictable thing, the Newspaper Bureau of Advertising has extended this promotion up through Christmas. Mats similar to this and other promotional material should be available through your local newspapers

quired from any one dealer has been raised from 10% to 25% of a bank's capital and surplus. However, if the maker has been fully screened, approved and certified in writing as a credit risk by the bank, the only limitation is then 10% of the bank's capital and surplus applied to the total obligation of the individual maker.

This much-needed twofold provision clarifies a section of the Federal Reserve Act long subject to confusing interpretation, according to the Instalment Credit Commission.

The A.B.A. supported this measure and Public Law 86-230 (H.R. 8159), terming them both to be "strongly in the public interest and of material assistance to the economic growth and progress of the country."

Outstandings May Double In Next 20 Years

TOTAL consumer credit will double within the next decade, forecasts a University of Michigan educator.

Associate Professor Thomas G. Gies, former economist with the Federal Reserve Bank of Kansas City, says banks and other financial institutions should prepare for consumer loans totaling at least $80-billion and probably more than $100-billion by 1980.

Professor Gies says that four factors will contribute to the increase: population growth, a high proportion of younger families within the population, expansion of suburban living, and increases in personal income.

Commenting in another direction, Professor Gies notes that the total value of consumer durable goods in American households is presently estimated at more than $200-billion. **"It is clear," opines Professor Gies, "that these purchases of consumer capital represent a kind of alternative to investment by business in capital goods rendering competing services, and that they have tremendous repercussion on the quantity of wealth and associated debt in the consumer section of the economy."**

Check Credit Still Small, Says Philadelphia Fed

REVOLVING check credit still accounts for only a small portion of consumer credit outstandings, according to the Federal Reserve Bank of Philadelphia, and maybe that's a good thing.

In its September *Business Review,* the bank points out that **these plans are not suited for the buying of automobiles, since the average line of credit is less than the car's price. For this reason, people might spend more of their incomes on "nondurables and services"—"items for which revolving credit plans are well adapted, and less on autos."**

It is doubtful, feels the Fed, that in its present quantity it has much effect on prices, but if revolving credit bunches up in boom times, it would be inflationary; if it is used where there is a slack in the economy, it would probably tend to increase output rather than prices. Its use, the bank feels, might hold up better in recessions than conventional bank loans—once consumers have their lines established, they need no further bank approval to borrow. In slack times they would be able to "borrow for living expenses or to take advantage of lower prices."

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20-Year Prediction: Check-Credit for Small Loans

CHECK credit might easily spread into the small loan and commercial fields, a group of Pennsylvania bankers were told. According to summaries coming out of the Penn-

(CONTINUED ON PAGE 123)

Visiting bankers were especially interested in First National Bank in St. Louis' Ready-Credit exhibit at the bank's 13th annual conference of bank correspondents held in early November. The display included forms, controls and advertising material produced in connection with the bank's revolving credit plan for individuals

• NEWS •

Savings

Scope of A.B.A. Savings Activities Broadened

EXTENSIVE plans have been approved for broadening the scope of the savings activities of the American Bankers Association, according to a summary of these changes and improvements prepared by Rudolph R. Fichtel, deputy manager, A.B.A., in charge of the Savings and Mortgage Division, following the Association's convention in Miami Beach. Mr. Fichtel's summary includes these five points:

(1) A Policy Statement of Objectives and Functions was approved by the division's Executive Committee in Miami Beach. This statement expresses in writing what the division stands and aims for.

(2) The division's Executive Committee has approved a cost analysis plan for savings and mortgage operations. This plan will go into production shortly and will be available to interested member banks.

(3) A completely new study on incentive savings plans should be completed for release to the membership early in 1960. This study will include a description of all incentive savings plans in current use. It will also cover premiums for savings.

(4) Plans and preparation for the annual Savings and Mortgage Conference in New York City next March are nearing completion. The conference format has been completely revitalized and will be designed to challenge, stimulate, and inform bankers interested in savings and mortgage operations.

(5) Recent changes to strengthen the division and make it more useful to more member banks include: (a) a new Committee on Research to specialize in savings and mortgage research; (b) a new Committee on Savings Promotion and Development; (c) a new Committee on Youth Thrift Education; (d) a new Advisory Committee on Savings Conference; and (e) a new set-up for division participation in the savings and mortgage areas of Federal and state legislation.

Summaries of the talks on savings and mortgage banking presented at the Savings and Mortgage Division's meeting during the A.B.A.'s national convention in Miami Beach may be found in "What About the Sixties?," starting on page 98.

Effective Methods of Advertising for Savings

SPEAKING on "Advertising for the Savings Dollar" at the Financial Public Relations Association convention in Miami Beach, Daniel M. Hodges, vice-president of The Merrill Anderson Company, New York, included these points:

"There are three basic ideas you will want to get across, in your efforts to compete with local savings institutions: (1) it's profitable to save at your bank; (2) it's easy to save at your bank; (3) the customer gets certain extras at your bank.

"(1) 'It's profitable,' means just one thing: high interest rate. If no one else in town can beat you on rate, you're mighty lucky, and you will find it hard to resist the temptation of confining your ads to a great big 3-and-whatever-it-is percent.

"Perhaps your bank's rate is not the highest in town but it's the legal maximum you can pay. In this case, whenever you mention rate, you may be able to use a qualifying line such as 'the highest rate a federally insured bank in our state is permitted to pay.'

"If your rate is not competitive, you'll probably be wiser to avoid any mention of it at all in your advertising. Why go out of your way to advertise your shortcomings?

"(2) 'It's easy to save at your bank,' means any number of things: Locations, the more the better, since surveys show that convenience is second only to interest rate in appeal to savers. Drive-in savings. If you permit customers to make savings deposits at drive-in windows, by all means let them know. Free parking. Extra banking hours (either early or late). Interchangeability of accounts. May a savings customer make savings deposits at more than one of your offices? Save-by-mail envelopes. If possible, pay postage both ways on savings by mail. Automatic savings plan.

"Some years ago our agency originated the name 'Save-O-Matic' which we have since registered as a trademark to cover the plan under which a customer authorizes the bank to transfer a specified amount every month from his checking account to his savings account. Such a plan is one more way to make saving easier for the customer. It also helps a bank to hold onto savings that might be switched to Government bonds, stocks, or a savings account at an institution paying a higher rate.

"(3) 'The customer gets certain extras at your bank'—here are two extras worth advertising:

"One-stop banking. This phrase has become one of the major cliches of bank advertising, but it expresses the commercial bank's number one advantage over its competitors—complete banking services at a single location. Fortunately, the phrasing can be varied.

"Days of grace. The savings interest period affords a good way to give the public another reason for saving at your bank. If interest is compounded quarterly, instead of semi-annually, so much the better. If interest is paid from day of deposit, you have an even stronger selling point.

Where to Advertise

"You'll notice that we have been discussing what to advertise, not where to advertise for savings. Hours can be spent in a discussion of the right media to use, on the ever-increasing importance of proper staff-training and staff sales programs. But—even with enthusiastic staff salesmen and a comprehensive advertising schedule—you cannot hope to achieve the best results possible unless you first understand what the themes of your advertising and sales efforts should be.

"Show that saving means fun. Show that saving at your bank pro-

vides special benefits for the earnings-minded person. Show that saving at your bank is more profitable, easier, or provides greater advantages than elsewhere in town. Try all this—and you're bound to see a difference."

$1.4-Billion in 1959 Christmas Club Savings

THE sharp rebound from the 1958 recession was emphasized again when Edward F. Dorset, president of Christmas Club a Corporation, released figures for the 1959 club. The total accumulation this year was $1.4-billion, which some 8,000 banks and savings institutions have distributed to over 13,000,000 Christmas Club members.

The year 1959 marks the eighth successive year that the club disbursements have exceeded $1-billion and the 1959 accumulation, following the trend of the past several years, is about 3% larger than in 1958. The average check this year amounts to $108 per member.

Two hundred and five financial institutions had clubs in excess of $1,000,000 each. New York led the 50 states with 2,676,636 members and $284,719,888 in savings. Pennsylvania was second with 1,659,240 members and savings of $189,388,803. Third place New Jersey had 1,118,931 members who saved $148,113,573, and California, a recent addition to the top four, showed 1,017,733 members and $141,942,251 in savings.

Payroll Savings Good PR

"PAYROLL savings are a systematic form of savings—the very best way for anyone to accumulate money," said Marian G. Haefeli, director of Public Relations, Prudential Savings Bank, Brooklyn, in an address on this subject before the Financial Public Relations Association convention in Miami Beach. "Even though I would not make too much money on the payroll savings department," Mrs. Haefeli said, "I would solicit that business for the prestige that it brings to my institution."

"Publicity and promotion of the plan is, in most banks, done by a representative of the public relations department," Mrs. Haefeli pointed out. "It is a good idea to resolicit each company, at least once a year, in order to offset the accounts lost by employees moving from one firm to another, and also to try to get accounts from those employees who have not as yet joined up with the plan," she added.

Continuing Mrs. Haefeli stated that "employees trying to impress their employers of their thriftiness, often designate an amount that is too large for their earnings. They then as regularly withdraw on a following day, part or all of their deposit. This type of an account is, of course, costly for an institution, and does not accomplish what it was originally intended to, and such accounts should be invited to withdraw from the plan.

"Banks, in general, in order to assure the success of the operation, have found it necessary to enlist the aid of one or more persons in each company to act as thrift representatives. These representatives, as well as any other key persons who advance the success of this saving plan, are rewarded at the end of the year. Some banks give $5 at the holiday season, some $20, or a carton of cigarettes to the men and a box of candy to the women."

No-Passbook Savings

"AT our bank there were two major reasons to investigate the no-passbook plan," said Roy E. Adrianson, assistant vice-president, First National Bank in Fort Lauderdale, Fla., before the convention of the Financial Public Relations Association.

"First," he said, "there was no available space to expand our savings department, which was experiencing a rapid growth. Something had to be done to disperse the lines at our savings windows. Second, we were operating nine drive-in windows and there was developing a real need for us to provide this convenient service to our savings customers. It was easy to see how the total savings customer transactions might be absorbed by our regular tellers without adding an appreciable load to any teller or lengthening the waiting lines to any great degree."

"Well, no—I don't really *need* money. What could I carry down town for barter?"

Mr. Adrianson asserted that "there was one calculated risk which was seriously considered during our investigation of the no-passbook plan. How would our customers react to the introduction of such a radical departure from long established traditions? Would the human element of resistance to change be a major hurdle? The experience of the few banks that had adopted no-passbook savings was investigated by letter, telephone, and, in one case, by personal observation through a visit by two of our officers to a Reserve City bank. After full discussion and consideration, our operations committee approved the plan and its recommendation for adoption was accepted by the board of directors."

When it comes to results, Mr. Adrianson reported that his bank now has "one savings bookkeeper, using one Burroughs Sensimatic bookkeeping machine, whereas, formerly we had four persons and three window posting machines in the savings department. Also, a recent survey indicated that more than one-third of all savings transactions are now being handled at our drive-in tellers. **Our experience has also proved that savings activity can be absorbed by regular tellers without increasing their work load or adding appreciably to customer waiting lines. In addition, customers are able to transact commercial and savings business at one stop, thereby avoiding the necessity for waiting in two or more lines to make all transactions.** Also under this plan, the extra cost and risk of mailing in passbooks to make deposits or withdrawals are eliminated."

· NEWS ·

Housing and Mortgages

A.B.A.'s Revitalized Mortgage Services

THE great rise in importance of the American family in our money and credit structure is a fact which no bank striving for success in our competitive economy can afford to ignore. The American Bankers Association has strengthened its mortgage operations to assist the banks in preparing for the greater part they will undoubtedly play in the future in the area of mortgage credit.

Mortgage finance includes construction lending, interim financing, and permanent financing. The mortgage has become the largest single type of credit instrument in the American economy. Success in this field, as in any other area of finance, requires a knowledge of the market, an understanding of the techniques involved and the place of a particular type of credit in the money and capital markets. To assist the banks in their mortgage operations, the A.B.A. is sponsoring a series of three regional mortgage workshop conferences a year, a number of studies in the field of mortgage finance and operations, and the publication of a periodic mortgage bulletin. In addition to this, much groundwork is necessary to help the A.B.A. represent the banking community in the National Capital.

The first of the regional mortgage workshop conferences was held in New Orleans on November 22-24. The agenda of the New Orleans meeting included a forum on the mortgage market, a forum on the Government agencies involved in mortgage finance, and four seminars on various phases of mortgage operations. In addition there were several speeches on the commercial banks in mortgage finance. The bankers who attended this meeting thus had an opportunity to exchange ideas and to learn from each other. This is very valuable in view of the fact that many banks have already benefited from entering the mortgage field significantly while others are still watching and probing.

These meetings, as well as the studies already completed this year, others to come along regularly, and the mortgage bulletin, which will be in print soon, should make the A.B.A. an effective ally of the banks as they continue to develop their operations in the field of mortgage finance.

KURT F. FLEXNER
Director of Mortgage Finance, A.B.A.

1960 Construction Forecasts

CONSTRUCTION in 1960 seems headed for another good year by all previous standards, but new home starts are expected to dip below the all-time record established in the first nine months of 1959, according to W. R. Wilkinson, vice-president, Johns-Manville Corporation.

Construction figures, completing the statistical record for the first 10 months of 1959, show the rate of new home starts in recent months has shown some decline from peak months, but has not dropped nearly as much as was thought possible under the impact of recently tightened credit restrictions.

As a result of this unexpected, favorable industry development, Johns-Manville economists have revised their 1959 forecast upward for the third time this year. They now expect year-end figures will show a total of 1,380,000 new home starts, Mr. Wilkinson said. This is 20,000 more than they estimated at midyear.

Gradually tightening money conditions in the building field will carry over into 1960, Mr. Wilkinson said, causing some reduction in the rate of new home starts compared with the 1959 record year.

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THE nation will experience a decline in home building next year but instead of the drastic slump now being widely predicted it is more likely to be just a sag, according to the quarterly economic survey published by the Mortgage Bankers Association of America.

Construction in Next 10 Years Set at $600-billion

CONSTRUCTION during the next 10 years in this country is estimated at well over twice the total national debt at the present time, or a total of $600-billion, exclusive of the land, operating equipment, and other services essential to this activity, according to a projection in the recently published quarterly economic report of the Mortgage Bankers Association of America. Against this huge demand the country is faced with a continued shortage of savings to finance it, the report adds.

The projection was made in connection with an analysis of the presently rising interest rates and availability of money to finance all the demands at the present time. At the moment, the present high interest rates give every indication of going still higher before they reach a level of stability.

Housing Starts Are Down

NONFARM private housing starts plummeted 13% in October, much more than usual for that time of year, according to the Bureau of the Census.

October starts, including 3,000 public starts, totaled 105,100, which compares with 120,400 in September 1959 and 115,000 in October 1958.

The seasonally adjusted annual rate of private starts, based upon the October figure, is estimated at 1,180,000.

The steel shortage and rising interest rates were credited with the sharp decline.

MBAA Mortgage Meetings

THE Mortgage Bankers Association of America will sponsor a series

(CONTINUED ON PAGE 126)

CALENDAR, 1959-1960

DECEMBER						
S	M	T	W	T	F	S
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31						

FEBRUARY						
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28	29					

MARCH						
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American Bankers Association

1960		
Jan.	21-22	National Credit Conference, LaSalle Hotel, Chicago
Feb.	8-10	Mid-Winter Trust Conference, Waldorf-Astoria Hotel, New York
Mar.	7- 9	57th Annual Savings and Mortgage Conference, Hotel Roosevelt, New York
Mar.	21-23	Instalment Credit Conference, Conrad Hilton Hotel, Chicago
May	30-June 3	American Institute of Banking, Statler Hilton Hotel, Boston
June	13-24	The Stonier Graduate School of Banking, Rutgers—The State University, New Brunswick, N. J.
Sept.	18-21	86th Annual Convention, New York City

State Associations

Dec.	1- 2	Pennsylvania Fall Meeting, Penn-Sheraton Hotel, Pittsburgh
Dec.	3- 5	Southern Secretaries Conference, Grand Hotel, Point Clear, Ala.
Dec.	9-11	Eastern Secretaries Conference, Waldorf-Astoria, New York
1960		
Mar.	24-26	Florida, Robert Meyer Hotel, Jacksonville
Apr.	22-29	Georgia, Cruise aboard S. S. Bergensfjord
Apr.	24-26	Louisiana, Hotel Roosevelt, New Orleans
Apr.	30-May 7	Alabama, Cruise aboard S. S. Bergensfjord
May	1- 6	South Carolina, Cruise to Nassau
May	5- 6	Oklahoma, Skirvin Hotel, Oklahoma City
May	6- 7	North Dakota, Dacotah Hotel, Grand Forks
May	8-10	Missouri, Sheraton-Jefferson Hotel, St. Louis
May	8-10	North Carolina, The Carolina Hotel, Pinehurst
May	11-12	Ohio, Sheraton-Gibson Hotel, Cincinnati
May	12	Delaware, Du Pont Hotel, Wilmington
May	12-14	Kansas, Topeka
May	15-17	Texas, Texas Hotel, Fort Worth
May	15-18	Pennsylvania, Bellevue-Stratford Hotel, Philadelphia
May	16-18	Mississippi, Buena Vista Hotel, Biloxi
May	18-19	Indiana, French Lick-Sheraton Hotel, French Lick
May	18-20	New Jersey, Chalfonte - Haddon Hall, Atlantic City
May	19-20	Massachusetts, New Ocean House, Swampscott
May	19-21	Utah, Royal Nevada Hotel, Las Vegas, Nev.
May	20-21	New Mexico, Western Skies Hotel, Albuquerque
May	20-24	Maryland, Shoreham Hotel, Washington, D. C.
May	22-24	California, Ambassador Hotel, Los Angeles
May	23-24	Illinois, Palmer House, Chicago
May	23-25	Arkansas, Arlington Hotel, Hot Springs
June	3- 4	Connecticut, Equinox House, Manchester, Vt.
June	7- 8	Minnesota, Leamington Hotel, Minneapolis
June	8-12	Dist. of C., The Homestead, Hot Springs, Va.
June	12-14	Idaho, The Lodge, Sun Valley
June	15-17	New York, Lake Placid Club, Lake Placid
June	16-18	Michigan, Grand Hotel, Mackinac Island
June	16-18	Montana, Canyon Village Hotel, Yellowstone National Park
June	16-18	Virginia, The Homestead, Hot Springs
June	16-18	Wyoming, Jackson Lake Lodge, Moran
June	17-18	*New Hampshire, Wentworth-by-the-Sea, Portsmouth
June	17-18	*New Hampshire Mutual Savings, Wentworth-by-the-Sea, Portsmouth
June	19-21	Washington, Davenport Hotel, Spokane
June	20-22	Wisconsin, Schroeder Hotel, Milwaukee
June	23-25	Colorado, Hilton Hotel, Denver
June	23-25	Vermont, Equinox House, Manchester
June	24-25	New Jersey Mutual Savings, Monmouth Hotel, Spring Lake
July	14-17	West Virginia, The Greenbrier, White Sulphur Springs
Sept.	8-10	Maine Savings Banks, Poland Spring House, Poland Spring
Oct.	14-15	New Hampshire Fall Meeting, Mountain View House, Whitefield
Oct.	17-18	Connecticut Mutual Savings, Mountain View House, Whitefield, N. H.
Oct.	23-26	Iowa, Fort Des Moines Hotel, Des Moines
Nov.	10-12	Arizona, Biltmore Hotel, Phoenix

*Joint Meeting

Other Organizations

1960		
Apr.	4- 6	NABAC Eastern Regional Bellevue-Stratford Hotel, Philadelphia
Apr.	24-27	NABAC Northern Regional, Schroeder Hotel, Milwaukee
May	16-18	NABAC Southern Regional, Chase-Park Plaza Hotel, St. Louis
May	22-26	Independent Bankers Association, Hilton Hotel, Denver, Colo.
June	6- 8	NABAC Western Regional, Hotel Utah, Salt Lake City
Oct.	10-12	NABAC 36th Annual Convention, Hotel Statler, Los Angeles
Oct.	10-13	National Association of Bank Women, Annual Convention, Huntington-Sheraton Hotel, Pasadena, Calif.

All banking associations are invited to send in dates of their forthcoming meetings for this calendar.

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85TH A.B.A. CONVENTION. The new president, John W. Remington, president, Lincoln Rochester Trust Company, Rochester, N. Y., is at the *right*; next to him is the 1958-59 president, Lee P. Miller, president, Citizens Fidelity Bank & Trust Company, Louisville. At *left*, the new treasurer, I. F. Betts, president, The American National Bank of Beaumont, Tex.; the 1959-60 vice-president, Carl A. Bimson, president, Valley National Bank, Phoenix, Ariz.; and Merle E. Selecman, A.B.A. executive vice-president

What About the Sixties?

Bankers' Eyes Were on Them at A.B.A.'s 85th Convention

WHETHER the Space Age Sixties soar and bulge or sink and shrink, they got a good press and some sound advice at the last American Bankers Association convention of the generally Fair-haired Fifties.

The next 10-year period was in sharp focus at the big 1959 Miami Beach meeting, which had its eyes peeled for signs of strength and weakness in the economy. It found both, but on balance the prospect looked good, although optimistic predictions were often conditioned with "ifs" and warnings.

The Association's outgoing president, Lee P. Miller, president of the Citizens Fidelity Bank and Trust Company, Louisville, Ky., laid out for nearly 10,000 registered delegates and their wives a blueprint of A.B.A. activities, particularly in legislation and in public education for "economic growth without inflation." The program, which includes support of the Mason bill providing more equitable taxation of financial institutions, is being carried forward by the 1959-60 president, John W. Remington, president, Lincoln Rochester Trust Company, Rochester, N. Y., and Vice-president Carl A. Bimson, president, Valley National Bank, Phoenix, Ariz.

One of the resolutions adopted by the convention reiterated "the declared policy of the Association to seek the elimination of existing inequities in the taxation of financial institutions" and emphasized "the responsibility of our individual members to assist the efforts towards this end of the officers and appropriate committees."

Heard at the convention were many views on many subjects, including Mr. Khrushchev. And seen at the Fontainbleau Hotel, which shared convention meetings with the Americana, was an amazing display by the bank equipment manufacturers who, on the eve of the Automation Decade, offered equipment already available and hinted at the even more productive items still to come. Also shown to the

interested delegates were many new aids to that other important banking activity of the Sales-minded Sixties, the merchandising of services.

Headlines at Miami Beach

Here are some headlines BANKING jotted down in its convention notebook:

- We'll have a $500-billion economy in 1960, and there are reasonable expectations that the upward trend can be considerably extended.
- Economic growth without inflation is essential. Otherwise the "Soaring Sixties" may be tragically capped with inflationary froth.
- The present interest rate ceiling on Treasury bonds must be eliminated.
- The long range outlook for savings—the big new capital reservoir—is good. However, people must be persuaded to save more.
- A resolution said that "any effort to prevent market forces from having their effect on interest rates would greatly increase the inflationary potential." One of the most effective ways to relieve upward pressure on rates when business is active is to have a large Treasury surplus so that the Treasury won't be competing with other credit users.
- The convention endorsed the Federal Reserve System's flexible credit policies.
- The U. S. must improve its competitive trade position if large grants to other countries are to be continued. Questions as to the dollar's stability in world markets and the possibility of a devaluation are unjustified.
- Maintenance of world confidence in the dollar calls for fiscal, debt management, and credit policies that will work against higher prices.

Other Officers Elected at Miami Beach

IN addition to a new president and vice-president, the Association has a new treasurer. He's I. F. BETTS, president of The American National Bank of Beaumont, Tex., who was elected by the A.B.A. Executive Council at the close of the convention.

Officers to head the four divisions and one section during the coming year were also elected at Miami Beach. They are:

National Bank Division—President, JOHN S. COLEMAN, chairman, Birmingham (Ala.) Trust National Bank; vice-president, BEN H. WOOTEN, president, First National Bank in Dallas; chairman, executive committee, HAROLD J. MARSHALL, president, National Bank of Westchester, White Plains, N. Y.

State Bank Division—President, HARRY W. EATON, president, Twin Falls (Idaho) Bank & Trust Company; vice-president, CHARLES A. PIPER, president, The Liberty Trust Company, Cumberland, Md.; executive committee chairman, ROLAND L. ADAMS, president, Bank of York, York, Ala.

Trust Division—President, CHARLES W. HAMILTON, senior vice-president and trust officer, The National Bank of Commerce, Houston; vice-president, ROBERT R. DUNCAN, president, Harvard Trust Company, Cambridge, Mass.; executive committee chairman, THOMAS H. BEACOM, vice-president, The First National Bank of Chicago.

Savings and Mortgage Division—President, LOUIS S. FINGER, president, Andover (Mass.) Savings Bank; vice-president, GAYLORD A. FREEMAN, JR., general vice-president, The First National Bank of Chicago.

State Association Section—President, CARL E. BAHMEIER, JR., executive secretary, South Dakota Bankers Association; vice-president, WILLIAM K. MENDENHALL, executive vice-president, New Jersey Bankers Association.

Sketches of the new officers (except President Remington whose profile appeared last month) begin on page 107.

NEW PRESIDENTS. The four 1959-60 Division heads, *left to right*, John S. Coleman, National Bank; Harry Eaton, State Bank; Louis S. Finger, Savings and Mortgage; and Charles W. Hamilton, Trust

Remington Sets Four Targets

In accepting the A.B.A. presidency, Mr. Remington said:

WE as an Association and individually must sight some targets for the coming year and the years which follow.

(1) *We must foster a sound economic environment.* We must preserve our strength and help our economy to achieve growth without inflation. The program of the American Bankers Association announced last month deserves our complete support since the position bankers take in fighting inflation and adhering to sound policies will serve as an example for many others.

(2) *We need to improve the competitive environment for banking.* We do not seek to destroy those who compete with us. They hold an important place in our economy. But we must safeguard the strength of the banking system by working toward the removal of arbitrary and unfair deterrents to banking progress. We must encourage and work for the passage of banking laws which recognize the needs of today.

(3) *We must serve the public better.* This can be accomplished through education of bank personnel and research. It is always possible to discover and develop new and more efficient ways to serve the public. New services can be introduced; policies can be revised and improved; better techniques and yardsticks can be developed. We must avoid the philosophy that present procedures need not be changed when initiative and ingenuity can show some better way to serve bank customers.

(4) *We as an Association through our staff officers and members must tell the story of banking.* The public should have a better understanding of the role of banking. We need to promote improved public acceptance of banks and their importance to the community. We all can help by exerting a judicious influence in the legislative process when important national and local issues arise.

- Costs and prices must be held in line.
- A too-rapid expansion of purchases in certain consumer durables must be avoided.
- In the economic war with Russia we can't afford the risk of a depressed, even a recessed, economy.
- The Association is endeavoring to work out with the Treasury a way to assure reporting of savings account income for tax purposes.
- The country faces numerous critical decisions—for instance, budget-balancing, lower farm program expenditures, ultimate tax reduction, vigorous opposition to proponents of cheap money during booms.
- National economic thinking should be non-partisan.

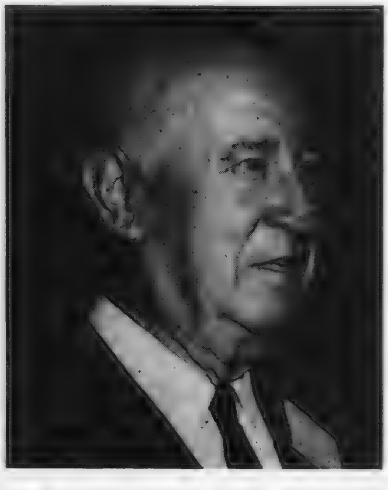
Mason Bill

In telling the delegates that the Association intends to press for enactment of the Mason bill, Mr. Miller said:

"Last year's convention made it clear to the officers of this Association that the membership desired that something be done to correct the unfair disparity in tax treatment between mutual institutions and commercial banks. Shortly after the convention I appointed a committee representing the Administrative Committee to explore the tax question with representatives of the National Association of Mutual Savings Banks. Their discussions over a period of several weeks failed to produce agreement as to how the tax laws might be changed to secure a greater degree of equity between commercial banks and mutual institutions. They did show, however, that groups within the membership with sharply different views can and should attempt to seek better understanding on matters at issue."

The whole question of inequities

***Left*, Ray M. Gidney, Comptroller of the Currency, addressed the National Bank Division—*Center*, General James M. Gavin, executive vice-president, Arthur D. Little, Inc., talked on "The Challenge of the '60s" at a general session—*Right*, Representative Albert Rains, Ala., spoke on "Housing in a Full Employment Economy" at the Savings and Mortgage Division meeting**



Left, Dr. Paul McCracken, University of Michigan School of Business Administration, discussed "The Long-Range Outlook for Savings" at the Savings and Mortgage meeting.—*Center,* Dr. Elvis J. Stahr, Jr., president, West Virginia University, talked on "America's Soundest Investment" at a general session.—*Right,* Winthrop Rockefeller, chairman of the Arkansas Industrial Development Commission, told the State Bank Division about his organization's work

in the national tax structure is before the House Ways and Means Committee, and the hearings, said Mr. Miller, "will provide an opportunity to amplify the views already outlined in statements to date."

"I should like to state further," the president continued, "that this action of the Association answers positively and directly the doubts expressed by some in the past that the Association could not take a position on the tax issue as long as the mutual savings banks were permitted to remain in the membership. The tax stand has been distasteful to the mutuals—and naturally so—but I am pleased to report that a significant part of the mutual savings bank constituency has had the broad vision to place other considerations above the current tax issue, and has remained in the membership to continue to enjoy the benefits of the Association in so many fields.

"I would hope that the Association may continue to inspire and keep the confidence of all bankers—whatever their viewpoint on specific issues—and that the recent defection will be just a passing phase, as has been the case so many times before in Association history."

Sound Growth

In his review of Association work during the past year Mr. Miller also stressed the program of the new Committee for Economic Growth Without Inflation, explaining that initially its efforts will be mainly in the areas of education and Federal legislation.

"Our educational program will concentrate on explaining the factors affecting economic growth, combating the notion that inflation is inevitable, explaining why inflation is cause for serious concern, and advocating policies that should be followed to promote growth and to avoid inflation."

The program will also involve taking an active part in Federal legislation bearing on economic progress. "Naturally, we shall have to be selective in this," Mr. Miller commented, "since we could not possibly try to cover all legislation which has some bearing on this problem. We shall concentrate on measures where the right answers appear to be clear and where support or opposition by bankers may be able to do some good."

Those Soaring Sixties

Many references were made to them during the convention. Louis B. Lundborg, executive vice-president, Bank of America N.T. & S.A., San Francisco, in his address as president of the Savings and Mortgage Division, said that the half-trillion dollar economy, foreseen for early 1960, will have "only fleeting glory." So rapid is the expansion in prospect, he asserted, that during the 1960s a 50% increase in national output is well within the nation's grasp—the largest percentage growth on record.

Population increases, continued Government spending for defense and other purposes, broadening consumer demands, and the products of research with their new investment opportunities help spell out "progress and growth, bigger industries and better lives," said Mr. Lundborg. The answers to these challenges will be provided by increased productivity, without which "our Fabulous Sixties could be plagued by a host of problems," among them the provision of adequate savings. To assure a full reservoir of new capital the dollar must be stable, public indifference to inflation must be overcome.

Froth?

From Carlysle A. Bethel, president of the Trust Division, and vice-president and senior trust officer, Wachovia Bank & Trust Company, Winston-Salem, N. C., came a reminder that unless care is taken, much of the economic heartiness predicted for the coming decade may only reflect inflation. Optimistic measurements of future business volume are expressed in a dollar that has been steadily cheapened. "A good deal of the projected future growth of the economy," said Mr. Bethel, "may be simply a reflection of further dollar inflation. Unless our leaders are careful, a tragic

amount of the expected soaring in the 'Soaring Sixties' will be inflationary froth."

A Word of Caution on Costs and Credit

Reporting on the economic situation today, Dr. Raymond J. Saulnier, chairman of the President's Council of Economic Advisers, commented on consumer credit extensions in the last few months. Projecting that rate of rise on an annual basis, he said, would give a greater volume than the 1955 credit expansion—and it's worth watching closely.

"I have a feeling that we got into a bit of trouble in the middle 50s." Dr. Saulnier asserted, "because of a too rapid expansion of purchases in certain consumer durable lines. There was a little tendency to do not just one year's business in one year, but two or maybe three years' business in one year. I think we will be better off if we take it easy in this area."

Dr. Saulnier also counseled that increases in costs—notably labor costs—be kept in line with improvements in productivity.

"We are entering a period when if we do not watch our Ps and Qs, we can go through another experience in which rising costs tend to put pressure on profit margins, and the inability of demand to stand for what is being passed on in higher prices, will mean a squeeze."

Mortgage Credit

Representative Albert Rains (D., Ala.) expressed to the Savings and Mortgage Division concern that the decline in the rate of housing construction may portend economic recession. He noticed "a disturbing parallel between the present economic situation and the one prevailing in 1956."

"Then as now," he said, "business investment was rising, placing pressure on the supply of credit. Interest rates were rising and the Fed was relentlessly pursuing a restrictive monetary policy. Home building had started down hill." Mr. Rains didn't agree with advocates of higher interest rates as a solution to problem of providing ample home-building credit. "We must turn away from the Administration's economic policy which actively encourages, even welcomes, every further increase in the interest rate structure."

The House Banking and Currency Committeeman said that group would give top priority to mortgage credit. "We will search for ways of tapping the vast resources of pension funds. We will examine carefully the builders' proposal for a central mortgage bank. We hope that experts in banking will have constructive proposals. I say quite frankly that if home building is on the ropes when Congress reconvenes, and none of these proposals offers a solution, we will seriously consider providing a substantial support fund in the Federal National Mortgage Association's special assistance operation, similar to the billion-dollar fund provided in the Emergency Act of 1958."

Critical Decisions

Herbert V. Prochnow, vice-president, The First National Bank of Chicago, warned that this was a time for critical decisions, and he briefly stated 10 in his talk to the trustmen. The country must: (1) Balance the budget with a surplus in good times to offset deficits during recessions. (2) Remove the interest ceiling on longer-term securities so the debt can be managed properly through the peoples' savings. (3) Reduce sharply the farm program expenditures. (4) Recognize the wisdom of ultimately reducing the 52% corporate income tax. (5) Remember the objective of ultimately reducing personal income taxes. (6) Eliminate the waste and extravagance in government and private economy. (7) Sell American goods far more aggressively abroad. (8) "Determine whether there are now monopoly powers in labor or business which operate to the detriment of the national economy." (9) Reassess the Federal program of grants, aid and loans, and charge one person with complete responsibility for coordinating and supervising all economic programs. (10) Oppose vigorously pleas for cheap money during booms. (This may become a crucial issue.)

***Left,* Dr. T. Keith Glennan, administrator, National Aeronautics and Space Administration, was a general session speaker on "The National in the Space Age."—*Center,* Irving C. Rassmussen of Minnesota, president of the National Association of Supervisors of State Banks, brought the State Bank Division greetings—*Right,* Herbert V. Prochnow, vice-president, The First National Bank of Chicago, offered the Trust Division "An Economic Program for Our Time"**

The many other talks heard at the convention yielded comment and ideas with a bearing on today and on the fast-approaching Sixties. Here are excerpts.

PAST PRESIDENTS LUNCH. This is a traditional gathering at the convention. Clockwise around the table from left, Joseph C. Welman; retiring president Lee P. Miller; incoming president John W. Remington; Robert V. Fleming; retiring A.B.A. treasurer Elwood F. Kirkman; F. Raymond Peterson; Fred F. Florence; former president of the Mexican Bankers Association Arturo Bueno y Urquidi; Everett D. Reese; Homer J. Livingston; James E. Shelton; C. Francis Cocke; W. Harold Brenton; Erle Cocke; A.L.M. Wiggins; and executive vice-president Merle E. Selecman

MASON BILL. Comptroller of the Currency Ray M. Gidney told the National Bank Division that the Mason bill's provisions "are of great importance to the commercial banks, and indeed to our system of free enterprise." In addition to effecting greater tax equality, he said, the measure would "add substantially" to the Treasury's receipts.

ECONOMIC WAR. General James M. Gavin, executive vice-president, Arthur D. Little, Inc., Cambridge, Mass., talked on the Soviet economic challenge. He saw "something particularly sinister" about the way this struggle is proceeding; Khrushchev is making it "very easy for us to forget we are at war" and "our biggest risk is that we may lose" without ever knowing that we are fighting. We've been stunned by Russia's technical achievements and have "suffered a loss of nerve." However, the U. S. A. has "very real assets, notably that most of the world finds something very appealing about the American way of life."

Economic integration is "necessary and inevitable" for the West, especially in scientific research. And we must maintain our leadership in creative ideas and a better way of life. "We cannot afford the risk of a depressed, or even recessed, economy."

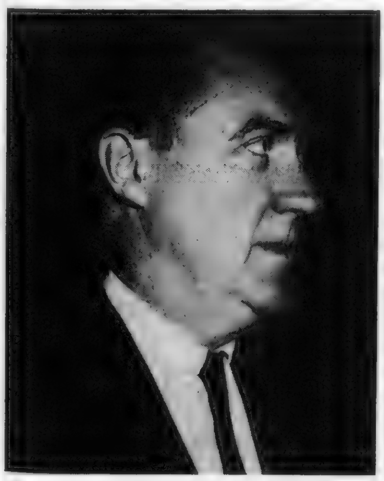
SAVINGS OUTLOOK. Those in the savings business may well find themselves busier in the future, provided demand for funds continues brisk, said Dr. Paul McCracken, University of Michigan's School of Business Administration, at the Savings and Mortgage meeting. Americans can be expected to continue saving about the same proportion of their incomes, but if economic growth is to be faster, people must be persuaded to save more. An active demand for capital is indicated. Problems: A strong Federal budget is essential for the smooth functioning of the capital markets. Long range confidence in the dollar must be strengthened. Debt will continue to grow, so the challenge is to keep it orderly, steady and solid.

THE SPACE AGE. A condensed picture of the important segments of the national space program was given by Dr. T. Keith Glennan, administrator, National Aeronautics and Space Administration. Dr. Glennan is convinced that space exploration "will return to the economy dividends which at this stage we can envision only dimly." Many believe the meteorological and communications systems will provide important economic benefits in the foreseeable future. Others that can logically be expected include: application of space-vehicle inertial guidance to aircraft; adaptation of data-processing systems used in space experiments to commercial and industrial ends; utilization of high-temperature, high-strength alloys for industrial products; and, of course, adaptation of the super-miniaturization techniques — necessary to make space payloads compact — to provide much smaller, lighter, and more efficient office, plant, and home appliances of many kinds.

Dr. Glennan assured the bankers that the space program is "making good, sound progress. We do not intend to whine or grow hysterical every time the Russians score," he continued. "We do not intend to rush pell-mell into makeshift 'spectaculars' in hopes of topping each Soviet space success. But I can assure you that we do not intend for long to run second in any phase of space exploration."

AGRI-BUSINESS. Agriculture is no longer the production of foods and fiber; it includes businesses that supply farmers and handle farm products, Dr. Earl Butz, dean of agriculture at Purdue University, told the Agricultural Commission breakfast. Although there's been a trend toward fewer workers on the farms, employment in business related to agriculture has increased.

Dr. Raymond J. Saulnier, Chairman, Council of Economic Advisers, addressed the National Bank Division on "The Economic Situation Today"



The Public Relations Council meeting was one of the many sessions held on convention Sunday by the Association's working groups. At the table, *right*, Chairman Melville M. Parker, executive vice-president, First National Bank, Lebanon, Pa., and Director Robert G. Howard

Bankers Endorse Savings Bonds Rate Rise

THE A.B.A. Savings Bonds Committee endorsed the recent interest rate increase on those securities, expressing confidence that the action would reverse the upward trend of redemptions. At the committee's convention meeting, the Treasury's Savings Bond Division presented President Miller with a copy of an ad featuring his picture and testimonial. It was one of the most popular ads offered weekly newspapers in the first half of 1959, said James F. Stiles, the Division's director.

So farming is not a declining business; only the number of workers needed to run the farm has declined.

CENTENNIAL. Plans for celebrating in 1963 the centennial of the National Banking Act were outlined to the convention by Ben H. Wooten, president, First National Bank in Dallas, and chairman of the National Bank Division's Commission for observing the anniversary.

At a recent meeting of the Commission, he said, it was agreed to ask each commercial bank member of A.B.A. to invest in the Centennial fund an amount equal to $1,000,000 of its deposits. This formula could provide approximately $225,000, but the Commission is making no contracts until it knows the approximate amount of money with which it must operate.

Plans include a commemorative coin and stamp, special ceremonies, speech material and, as a climax, the annual A.B.A. convention under the theme "One Hundred Years of Commercial Banking."

RURAL DEVELOPMENT. The work of the Arkansas Industrial Development Commission in strengthening and locating industry in low income areas and in widening the range of off-farm opportunities was described to the State Bank Division by the Commission's chairman, Winthrop Rockefeller. Industrial development is regarded as a panacea for a surplus of people and a shortage of jobs. The program offers industry an opportunity to tap this labor supply at its source, and offers "a fresh start for building sound employee relations."

SOUNDEST INVESTMENT. It's education, said Dr. Elvis J. Stahr, Jr., president, West Virginia University. The universities need new levels of support; also ways must be found to cut down "the irreparable losses caused by the failure of many of our brightest young people to pursue their education beyond high school." There aren't enough scholarships, loan funds, and part-time jobs for them.

Convention Notes

1960. A.B.A.s 1960 convention will be in New York City, Sept. 18-21.

FORMER PRESIDENTS. At the first general session Executive Vice-president Merle E. Selecman introduced these former presidents of the Association: Robert V. Fleming (1935); A. L. M. Wiggins (1943); J. Raymond Peterson (1949); James E. Shelton (1950); C. Francis Cocke (1951); W. Harold Brenton (1952); Everett D. Reese (1953); Homer J. Livingston (1954); Fred F. Florence (1955); Erle Cocke (1956); Joseph C. Welman (1957).

GUESTS. President Miller introduced the following guests of the convention: Ray M. Gidney, Comptroller of the Currency; Jesse P. Wolcott, chairman, FDIC; Mrs. Ivy Baker Priest, Treasurer of the United States; Juan Pujol, president, Cuban Bankers Association; Arturo Bueno y Urquidi, former president, Mexican Bankers Association; and the president of the National Association of Supervisors of State Banks, Irving C. Rasmussen, Minnesota Commissioner of Banks.

GREETINGS. Comer J. Kimball, chairman of the executive committee of the Dade County bankers, hosts for the convention, extended the official welcome. He is chairman of the board, The First National Bank of Miami.

GOOD PRESS. Seventy-five correspondents reported the convention for newspapers and periodicals. The A.B.A. News Bureau was busy.

President Miller meets the press

The 1958-59 Division Presidents Report

A Quick Visit to the Annual Meetings at Miami Beach

Growth Beyond Dollar Volume

CARLYSLE A. BETHEL, *Trust Division.* [After warning against "inflationary froth," Mr. Bethel added:] If we are to experience real progress and genuine gains, we must recognize that our trust institutions should have growth that goes beyond simply showing larger dollar figures on our asset statements. What we should and must have is absolute growth in real business volume, measured in terms of serving more customers and serving them in broader, more profitable capacities.

We must put our minds, our energies, our automobile tires, and our shoe leather to work building better business through the creation of a wider understanding of trust services, through greater business development programs, better public relations activities, and through high-quality service to present customers so that they too become members of our new business team. The public sorely needs the services we alone can perform, and there is a market, relatively untouched far more vast than the market we now serve.

The Mason Bill

LOUIS E. HURLEY, *State Bank Division.* From the many letters, telephone calls, and personal conversations the officers of your Association have had with so many of you, this [Mason] bill is the expression of your wishes. If you agree, then you should make your thoughts and your wishes known to your Congressmen and Senators. You should make an effort to get every commercial banker in your state to do the same. It is also important that you continue to be in touch with your Congressional delegation so you can keep your position fresh in their minds. If you want to win this battle you can rest assured you will have to put up the hardest fight you are capable of waging.

Taxation

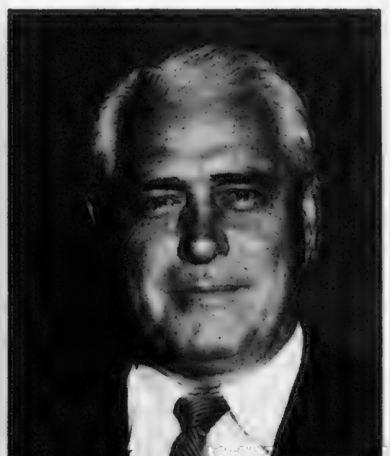
JOHN S. COLEMAN, *National Bank Division.* The great burden of taxation should be more equitably distributed. There are classes of businesses which operate free from paying their fair share of taxes, while other businesses in similar undertakings are subjected to heavy taxation and are thereby compelled to bear a disproportionate part of the expense of Government. It is hoped that Congress will at an early date enact appropriate legislation to correct these inequalities.

Mr. Coleman became acting division head when President Hulbert T. Bisselle died.

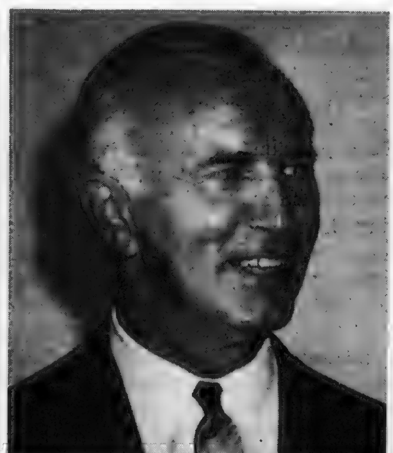
"Of and for Communities"

LOUIS B. LUNDBORG, *Savings and Mortgage Division.* Unless the commercial banks want to abdicate and forfeit their leadership to other kinds of financial institutions in this bursting decade ahead, they must make themselves truly the banks of and for their communities. That means just one thing above all others: They must plan a more active role in both the savings and the mortgage functions of their communities. They should aggressively seek the savings of their people, and then they should put those savings to work in building their communities and financing the many needs of their expanding communities.

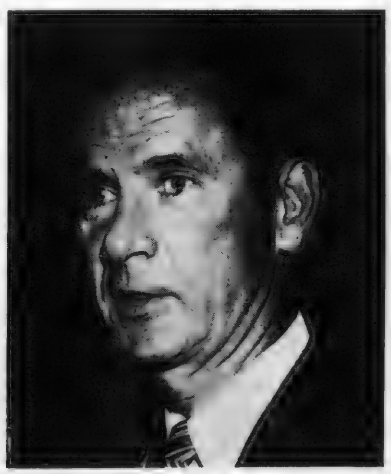
President Coleman



President Hurley



President Lundborg



President Bethel

Meet Vice-president Bimson

Phoenix Banker Began His Business Career as a Telephone Man

THE new vice-president of the American Bankers Association, Carl A. Bimson, president of Valley National Bank, Phoenix, Ariz., was a telephone man and a realtor before he became a banker in 1933.

Mr. Bimson, a native of Berthoud, Colo., where he was born March 15, 1900, attended Colorado A.&M. College, now Colorado State University. After graduation he was employed by the Mountain States Telephone & Telegraph Company in Denver from 1924 to 1930, and for the next three years was active in property management and real estate sales.

He then joined Valley's staff. From 1934 to 1936 he was on loan to the Federal Government as manager of financial relations for the Federal Housing Administration in Arizona. In 1939 he became assistant vice-president of the bank; in 1940 vice-president; and a year later, director. He advanced to executive vice-president in 1949 and to president in 1953.

When he returned to the Valley Bank in 1936 he began consolidating its instalment loan activities into a single department. In the process he introduced several innovations in the handling of FHA Title I, automobile, personal, appliance, and equipment loans which today are standard procedure in many banks.

Mr. Bimson is a past president of the Arizona Bankers Association and the Phoenix Clearing House Association. Aside from serving as president in 1952, he has also held numerous other posts in the Arizona Bankers Association. He was vice-president of the Financial Public Relations Association in 1952-53.

A.B.A. Positions

In the American Bankers Association he was a member of the Consumer Credit Committee (now the Instalment Credit Commission) from 1947 to 1950 and chairman of the Instalment Credit Commission from 1955 to 1958; a member of the Credit Policy Commission from 1955 to 1958; and is now a member of the Small Business Credit Commission.

His outside business interests include a position as assistant secretary and member of the executive committee of the Valley National Company-Insurance, president of the Valley National Building Corporation, and vice-president and director of the Arizona Bancorporation.

His civic interests include posts as vice-president, director, and executive committeeman of the Phoenix Metropolitan YMCA; director and executive committeeman of the Maricopa Chapter of the American Red Cross; director, treasurer, and member of the executive committee of the Plan for Progress; and member of Kiwanis International, Phoenix Chamber of Commerce, and Phoenix Thunderbirds.

Carl A. Bimson, president of the Valley National Bank of Phoenix, Arizona

He was made an honorary state farmer by the Future Farmers of America in 1952.

Mr. Bimson has also served as a director of the Retail Credit Men's National Association; district governor for the National Association of Better Business Bureaus; member of the Finance Committee of the U. S. Chamber of Commerce and chairman of its subcommittee on credit unions; and one of the original members of the Westinghouse Electric Corporation Banker Advisory Council.

Keenly interested in the continued expansion of Arizona's economy, Mr. Bimson has been called "one of the state's best salesmen."

Mr. and Mrs. Bimson make their home in Phoenix.

Association Leaders

I. F. BETTS

Treasurer, American Bankers Association

Treasurer Betts

THE recently elected treasurer of the Association, I. F. Betts, president of The American National Bank of Beaumont, Tex., is a native of Thomasville, Ala. He holds a B.A. degree from Southern Methodist University and was graduated from The Stonier Graduate School of Banking. He is permanent president of the Class of 1941.

Mr. Betts began his banking career in 1922 with the Federal Reserve Bank of Dallas, where he became chief bank examiner. From 1939 to 1947 he was vice-president of the Continental-American Bank and Trust Company, Sheveport, La. He has been president of The American National Bank of Beaumont since 1947. He is a director of the Houston branch of the Federal Reserve Bank of Dallas.

He has been active in the Texas Bankers Association, including being chairman of District I. In the American Bankers Association, Mr. Betts was a member of the Bank Management Commission from 1942 to 1945; served as vice-president for Texas on the Organization Committee in 1948-49 and regional vice-president on the Organization Committee in 1949-50. He had a 3-year term on the Executive Council in 1950-53.

Mr. Betts is a director or member of the board of trustees of the Midwestern Insurance Company, Tulsa, Okla.; Southern Methodist University; Texas Research League; Texas Bureau for Economic Understanding; Medical Research Foundation of Texas; Texas United Fund; Young Men's Christian Association of Beaumont; the Chamber of Commerce of the United States (and chairman of the national Chamber's Committee on Government Expenditures).

He served two terms as president of United Appeals of Beaumont and North Jefferson County. For six years he was a director of the Beaumont Chamber of Commerce and for two years was president of that organization. He was a director and treasurer of the Spindletop Fiftieth Anniversary Commission. He is a member of the board of directors of the Downtown Beaumont Rotary Club and was president of the Town Club of Beaumont in 1953.

Mr. Betts is married, has one daughter, and makes his home in Beaumont.

HARRY W. EATON

President, State Bank Division

HARRY W. EATON, president of the Twin Falls Bank & Trust Company, Twin Falls, Ida., was born in Dustin, Neb. He attended the University of California at Berkeley and holds the Standard Certificate of the American Institute of Banking.

Mr. Eaton entered banking in Berkeley in 1913. From 1914 to 1916 he was with the Buhl (Ida.) State Bank. He has been with the Twin Falls Bank & Trust Company since 1916. He was a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco from 1952 through 1957.

Mr. Eaton is a past president of South Central Chapter of the American Institute of Banking (Twin Falls) and was president of the Idaho Bankers Association in 1949-50. He is now a member of the latter's Legislative Committee.

In the American Bankers Association, he was vice-president for Idaho on the Organization Committee from 1950 to 1952; a member of the Committee on State Legislation in 1952-53; member from Idaho on the Executive Council for a 3-year term in 1953-56; and a member of the Federal Legislative Council from 1953 to 1958. In the State Bank Division, he was a member of the Executive Committee for the 3-year term 1955-58; member of the Bank Research Committee from 1955 to 1957, being chairman in 1956-57; chairman of the Committee on Federal Bank Supervisory Agencies in 1957-58; and vice-president in 1958-59.

Mr. Eaton is a member of the Kiwanis Club and of the Board of Advisors of the College of Business Administration, University of Idaho; past president of the Twin Falls Chamber of Commerce; former member of the State Advisory Committee for Idaho of the Farmers

President Eaton

Home Administration; and past state chairman of the National 4-H Club Foundation.

Mr. Eaton is married, has one son, and resides in Twin Falls.

LOUIS S. FINGER

President, Savings and Mortgage Division

LOUIS S. FINGER, president of the Andover Savings Bank, Andover, Mass., is a native of Melrose, Mass.

Mr. Finger entered the banking business with the Melrose National Bank (now the Melrose Trust Company). Later he became associated with the Andover National Bank, of which he was elected assistant cashier in 1922. From 1929 to 1934 he was vice-president and treasurer of the First and Ocean National Bank of Newburyport. He has been with the Andover Savings Bank since 1934, first as treasurer, then vice-president and treasurer, and now as president. He is also a director of the Merrimack Valley National Bank of Haverhill.

Mr. Finger has served on several committees of the Savings Banks Association of Massachusetts and was president of this association in 1953-55. He is a former chairman of the Committee on Savings Bank Internal Operations of the National Association of Mutual Savings Banks.

In the American Bankers Association, he was vice-president for Massachusetts on the Organization Committee in 1945-46 and regional vice-president from 1946 to 1948; and a member of the Research Council from 1948 to 1952 and again from 1953 to 1955. In the Savings and Mortgage Division, he was chairman of the Committee on Investments and a member of the Executive Committee from 1956 to 1958, and served as vice-president of the division in 1958-59.

He is a graduate in the class of 1940 of The Stonier Graduate School of Banking, New Brunswick, New Jersey.

Mr. Finger is a director of the Merrimack and the Cambridge Mutual Fire Insurance Companies and of the Bay State Insurance Company of Andover.

He is married, has one son, and makes his home in Andover.

President Finger

CHARLES W. HAMILTON

President, Trust Division

CHARLES W. HAMILTON, senior vice-president and trust officer of The National Bank of Commerce of Houston, Tex., was born in Palestine, Tex., Apr. 19, 1907. He is a graduate of Rice Institute and of The Stonier Graduate School of Banking.

He has been associated with the bank since 1921, having started as a messenger. He became successively clerk, bookkeeper, and teller, and was named assistant trust officer in 1934. He was elected trust officer in 1944, vice-president and trust officer in 1947, and senior vice-president and trust officer in 1958.

He was instructor in trusts in Houston Chapter of the American Institute of Banking for several years and is past chairman of the Administrative Committee of the Trust Section of the Texas Bankers Association.

Mr. Hamilton has been active in the A.B.A. Trust Division, serving as a member of its Executive Committee for two 3-year terms (1951-55 and 1955-58) and as chairman during 1957-58; as a member of the division's Committee on Trust Policies in 1954-55; and as vice-president of the division in 1958-59.

Mr. Hamilton is a member of the board of directors of the Tennessee Gas Transmission Company and Kelley Manufacturing Company, Houston; and is immediate past

President Hamilton

chairman of the board of directors of the Houston Speech and Hearing Center and immediate past chairman of the board of directors of the Community Council in Houston.

He is married and resides in Houston.

JOHN S. COLEMAN

President, National Bank Division

JOHN S. COLEMAN, chairman of the board of the Birmingham Trust National Bank, Birmingham, Ala., was born in Jasper, Ala., Nov. 13, 1894. He holds an LL.B. degree from the University of Alabama and attended the Harvard Graduate School. During World War I he was a second lieutenant with the 7th Division of the U. S. Army AEF.

Mr. Coleman was admitted to the Alabama Bar in 1915. He was president of the Birmingham Trust National Bank from 1937 to 1958 when he became chairman of the board. He is a former director of the Birmingham Branch, Federal Reserve Bank of Atlanta, and, a director of the United States Pipe and Foundry Company and of the Alabama Great Southern Railroad Company.

Mr. Coleman has served on several committees of the Association of Reserve City Bankers and was director from 1941 to 1944 and vice-president in 1947.

In the A.B.A., he was a member of the Committee on Federal Legislation and its Subcommittee on Taxation from 1939 to 1941 and the Federal Deposit Insurance Commit-

tee from 1948 to 1956. He served on several committees of the State Bank Division (when his bank was chartered under state laws), including the Executive Committee from 1945 to 1947. In the National Bank Division he was on the Committee on Federal Legislation in 1955-56; the Committee on Research and Operations in 1956-57; and the Executive Committee in 1955-58, being chairman in 1957-58. He was vice-president of the division from September 1958 to July 1959 when he became acting president after the death of the division's president, Hulbert T. Bisselle.

He has been chairman and director of the Jefferson County Chapter, American Red Cross; president of the Birmingham and Jefferson County Community Chest; trustee of the Southern Research Institute and of the Children's Hospital; trustee and executive committeeman, Birmingham Committee of 100 (Chamber of Commerce activity). He is past president of the Birmingham Chamber of Commerce, and during World War II was chairman of the Banking Division of the War Finance Committee of Alabama.

He is a member of the Sons of the American Revolution and the Society of Colonial Wars.

Mr. Coleman is married, has one son, and lives in Birmingham.

(Mr. Coleman's picture is on page 105, with his report as acting Division president.)

CARL E. BAHMEIER, Jr.

President, State Association Section


President Bahmeier

CARL E. BAHMEIER, JR., executive secretary-treasurer of the South Dakota Bankers Association, is a native of Minneapolis. He received a B.A. degree from Macalester College and the University of Minnesota, and did graduate work in the fields of international relations and political psychology.

Before World War II, he served as a radio news analyst and lecturer in the Twin Cities. During the war, he was a combat flying officer in the ETO with the Eighth Air Force, and also served with the USSTAF.

Mr. Bahmeier became executive secretary-treasurer of the South Dakota Bankers Association in 1948.

He has been chairman of the board of trustees of the Central States School of Banking at the University of Wisconsin, president of the Central States Conference, and associate councilman for the American Institute of Banking. He is a member of the Financial Public Relations Association and a graduate of its school, and is also a member of the American Institute of Management and the American Academy of Political and Social Sciences.

Mr. Bahmeier served as a member of the Executive Committee of the A.B.A. State Association Section of the American Bankers Association in 1952-53 and was elected vice-president of the section in 1958.

Having flown commercially and militarily over 2,000,000 miles, Mr. Bahmeier is a member of the "Million Mile Club," the TWA Ambassador Club, and other aviation organizations. He is married and lives in Huron, S. D.

The Convention Resolutions

Inflation . . . Fiscal and Credit Policy . . . the Dollar . . . Taxation

Economic Growth Without Inflation

ECONOMIC growth is vital if we are to maintain our position of leadership and contribute to the strength of the Free World. It is also essential to the continued improvement of our standard of living.

One of the nation's most critical problems is to understand that policies which encourage or permit depreciation of the dollar will interfere with sustained economic growth and progress. Avoidance of inflation, therefore, should be one of the primary objectives of public economic policies.

Much of the price inflation in this country was generated by the fiscal deficits associated with World War II and the Korean War. In recent years other more complex inflationary forces have developed in our economy. While the strength of these forces may increase at times and lessen at other times, we must be prepared to meet the recurring threat of inflation for many years to come.

We recognize that as bankers and as citizens we have a particular responsibility to contribute to the achievement of the nation's objective of economic growth by cultivating an understanding that inflation makes vigorous and sustained growth impossible. We shall actively assist bank officers, directors, and employees to increase their own knowledge of the basic issues involved in order that they will assume more responsibility for helping to achieve a broader public understanding of these issues. Effective monetary, fiscal and debt management policies cannot be accomplished without such broad pub-

lic understanding and support.

Federal Fiscal Policy

The strength of our nation's fiscal position requires Federal tax and expenditure policies that will result in a significant Treasury surplus and reduction of the public debt during periods of high level business activity. It is essential to offset in good times deficits caused by the decline of revenues and redirection of expenditure programs in times of business recession, lest a rising national debt inevitably dissipate our nation's fiscal strength and weaken the value of the dollar.

Treasury Debt Management

The Congress, by not removing the $4\frac{1}{4}\%$ interest rate ceiling on Treasury obligations with a maturity of 5 years or longer, has made it necessary for the Treasury to confine its financing to shorter maturities. As a consequence, further pressure has been placed on the short-term market causing generally higher interest rates in that area. Thus, the failure to remove the interest rate ceiling has been self-defeating.

The large amount of maturities just ahead, and for several years to come, pose difficult problems for debt management. The Treasury should not rely entirely upon the use of short-term debt, but should extend the debt at every feasible opportunity. Consequently, we believe that the interest rate ceiling on Treasury bonds should be eliminated in order that the Secretary of the Treasury may be free to fit his financing decisions to market conditions.

Savings Bonds

Individual savings are essential to the economic health of our nation. Savings Bonds have occupied a prominent place in the savings field. To preserve this role, Savings Bonds must provide a realistic return to investors. The Congress is to be commended for raising the rate ceiling on Savings Bonds and thus recognizing the importance of interest rates in the attraction of savings in these times of very active demand for funds.

We renew our pledge to support the Savings Bonds Program as a means of giving every American the opportunity to share in financing the public debt.

Credit Policy

In the recent business expansion the Federal Reserve has been confronted once again with the problem of preventing excessive credit expansion. Federal Reserve policy has permitted a rise in bank loans in response to expanding business activity, but continued pressure on their reserve position has made it necessary for banks to lighten their holdings of Treasury obligations. Consequently, the growth in the money supply has been restrained and Treasury financing has been done outside the banking system.

Interest rates in recent months have increased in response to unprecedented credit demands arising out of vigorous business expansion, heavy Treasury borrowings, and inflationary psychology. Many investors have been influenced by fear of inflation to shift funds from bonds and other fixed-value obligations into stocks, real estate and other so-called inflation hedges. Also, investors in fixed-value obligations have insisted upon higher yields in order to provide some protection against depreciation in the dollar. These basic factors and not the policies of the Federal Reserve—have been responsible for the rise of interest rates.

We believe that any effort to prevent market forces from having their effect upon interest rates would greatly increase the inflationary potential in the economy and thus complicate the task of moderating cyclical fluctuations in business activity. It is our further view that one of the most effective ways to relieve upward pressure on interest rates when business is active is to have a large Treasury surplus in order that the Treasury will not be competing with other users of credit.

We endorse the flexible credit policies followed by the Federal Reserve as necessary to achieve sound economic growth with a minimum of cyclical fluctuations in employment and business activity.

The Position of the Dollar

The continuing loss of American gold is raising some questions as to the stability of the dollar in international markets and the possibility of a devaluation of the dollar. These speculations are not justified. Redistribution of the gold stock of the Free World has been a continuing objective of our international economic policy for a great many years. The recent shift in ownership of gold, therefore, reflects a necessary and wholesome strengthening of other Free World currencies. The United States still holds almost one-half of the monetary gold stock of the Free World, and our stock of monetary gold remains large relative to our liabilities.

The balance of payments of the United States shows a deficit. We must recognize that the United States is now subject to the discipline of the balance of payments, as has been the case in other countries for many years. We stress the need for a more widespread public understanding of this new environment. If we are to continue to provide large amounts of funds to other countries, either through Government programs or private capital investment, it will be necessary to improve our competitive trade position. Furthermore, to maintain world confidence in the dollar, we must follow fiscal, debt management and credit policies that will prevent a continued rise in our price level.

Taxation of Financial Institutions

We reiterate the declared policy of the Association to seek the elimination of existing inequities in the taxation of financial institutions, and to this end we emphasize the responsibility of our individual members to assist the efforts of our officers and appropriate committees.

Appreciation

The American Bankers Association has been fortunate in having Lee P. Miller as its president during the past year. His intimate knowledge of Federal legislation and taxation has been of inestimable value in dealing with problems confronting the banking industry. We are deeply appreciative of his leadership and devotion to our interests.

(The resolution also thanked other members of the A.B.A. family, the host banks, and all who contributed to the convention's success.)

Trustmen Meet in Detroit

Relationships with the Bar on Agenda at A.B.A.'s Mid-Continent Trust Conference

INVESTMENTS, relationships with the bar, personnel training through the formalized banking schools, and electronics in trust operations were discussed at the 28th Mid-Continent Trust Conference of the American Bankers Association in Detroit last month. The 3-day meeting was devoted to a series of shirt-sleeve, working sessions; field trips to Detroit industries; meetings with management of business and industrial enterprises; and visits to local banks.

Arthur B. Pfleiderer, vice-president of The Detroit Bank and Trust Company, was general chairman of the conference. Charles W. Hamilton, president of the A.B.A. Trust Division and senior vice-president and trust officer, National Bank of Commerce, Houston, was among the speakers.

Panelists who discussed cooperation between national and state trust groups. *Left to right*, Messrs. Knecht, Beacom, Brooke, Wolfe, and Barclay

The Necessity for Excellence

Mr. Hamilton talked on "The Necessity for Excellence," in which he dealt with the relationships between trust officers and members of the bar. Pointing to the fact that many trust officers are lawyers, graduated from recognized schools, and admitted to the bar, Mr. Hamilton said that "it is difficult to comprehend just how a trust officer, or the vice-president and general counsel of a corporation, becomes a layman by becoming a corporate officer."

In a thorough examination of his topic, Mr. Hamilton commented that he didn't "suppose there has been a single month in the past 10 years that we have not been approached by an attorney who requested assistance in the preparation of a trust instrument. . . . While we won't even use a standard form instrument for custody or agency services (I don't know what we will do if the Keogh bill becomes law), we do have a supply of forms which we make available to lawyers on request. We are now in the process of having a will manual prepared for distribution to attorneys in our county. We find such cooperation invaluable, for it helps the lawyer to serve his client and underscore our statement that we do not practice law. At least no one yet has held that our furnishing forms to attorneys constitutes the practice of law."

Mr. Hamilton added this poignant statement: "Because so many trust officers are lawyers, they have no quarrel with the rule that trust institutions do not practice law. But because these trust officers are fiduciaries, they have a right to expect that the lawyers will practice law, and practice it right, and practice it without undue delay."

The investments talks given at the conference are summarized briefly in the Investments section of this issue of BANKING, starting on page 4. While a full digest of all of the addresses may be found in the December and January issue of the A.B.A. *Trust Bulletin,* a few additional excerpts are included on these pages:

Benefits from Close Cooperation of State, National Trust Groups

The advantages of national and state trust associations growing and working together were discussed by three panelists. The presiding officer at this session was Lewis Brooke, general vice-president and senior trust officer, City Bank, Detroit, and the moderator was Thomas H. Beacom, vice-president, The First National Bank of Chicago.

The first speaker, George C. Barclay, former president, Trust Division, A.B.A. and contributing editor of *Trust and Estates* magazine, outlined the primary factors involved in development of a strong trust section of the New York State Bankers Association.

Reviewing the NYSBA experience, Mr. Barclay said it was evident from the beginning that three things were needed: affiliation with the state bankers association with the attendant prestige element, statewide coverage of trust departments as members of the trust division, and a paid secretary.

Summing up, Mr. Barclay told his trust audience that "one of the finest results" of the New York program has been "the broadening of personal acquaintanceship among the trustmen of the state."

"The Trust Division of the American Bankers Association stands ready to assist all the states in their trust association work, whether they be divisions, sections, committees, or by whatever name they are

called," said Joseph H. Wolfe, deputy manager, A.B.A. and secretary of the Trust Division.

Enumerating the many ways in which the division can provide assistance to other groups, Mr. Wolfe told trustmen that the division has on file all types of sample constitutions and by-laws, an up-to-date listing of the officers of all trust associations in the country, and descriptive material on some 17 standing committees of the division which constantly work on projects in the trust field.

One important service described by Mr. Wolfe is a recommended cost accounting procedure for trust departments that want to know what it is costing to run their departments.

The Ohio experiment, conceived in 1940, has resulted in "substantial savings for Ohio trust companies, more uniform trust operational policies, and more effective action respecting legislation," said Lawrence G. Knecht, partner, Kiefer, Waterworth, Hunter & Knecht, Cleveland.

He told of the founding of the Fiduciaries Research Association, operated separately from the Ohio Bankers Association but closely allied or associated with it, in an effort to set up uniform procedures, avoid objectionable case law, and set up a communication center with a research program where problems could be identified and a common decision worked out as to the best possible method of handling them.

Mr. Knecht listed the "following of all proposed Ohio legislation affecting estates or trusts," as one of the most valuable contributions of the project.

Trust Courses Develop Capacity for Judgment

JOHN W. REMINGTON: "As you know, the purpose of the trusts course at The Stonier Graduate School of Banking is to develop capacity for judgment in the solution of trust department problems at the management level. From everything I can ascertain, this purpose is being accomplished as well today as it was 24 years ago, and we can be justly proud of our school as it aids experienced trust officers." *Mr. Remington is president, A.B.A. and president Lincoln Rochester Trust Company, Rochester, N. Y.*

Need for Instruction in Trust Administration and New Business Selling

RICHARD P. CHAPMAN: "After much study and consultation with trust officers throughout the country, a Committee on Trust Education was appointed [by the Trust Division] to make further study as to the need and place for such a school, its location, curriculum, and all related problems. It concluded that there appeared to be two related but nevertheless distinct fields for study and training: trust administration and trust new business. Each, of course, is essential to the other. Obviously, without new business effort, there is nothing to administer, and without sound administration, we don't have a good product to sell. Yet the special training needs for each are quite different. . . . After study, it was believed that a 1-year school with a single term of three weeks, the first half of which would be devoted to general study of the fundamentals of the trust business and the last half to intensive training in either of two major courses, one in administration and the other in new business development, best fitted the national need and gave most promise of giving speedy and adequate training of benefit both to bank and student. . . . the National Trust School became a reality and will hold its first session in August 1960" at Northwestern University at Evanston, Ill. *Mr. Chapman is president, Merchants National Bank of Boston and chairman, board of regents, A.B.A.'s National Trust School.*

Management's Job: Effective Use of Manpower

DR. JOHN H. RAPPARLIE: "The management job of the future will demand more effective utilization of manpower. There is no way to eliminate mature experience and decision making from an effective selection program. . . . To those of you faced with taking a critical look at the selection program, I recommend that you seek a competent personnel specialist to help you. . . . I recommend that you do not limit the scope of your consultant's activities. . . . Insist on appropriate administrative controls. Make the personnel consultant responsible for program follow-up subsequent to the introduced changes so there is evidence of how well the new program actually is working." *Dr. Rapparlie is industrial psychologist, Owens-Illinois, Toledo, Ohio.*

Machine Costs Will Fit More Pocketbooks

GEORGE E. MADILL: "In many of the combined bank and trust company organizations, the emphasis is, for the present, centered upon checking account mechanization. . . . When the banking problem is licked, the use of similar equipment and the production of new equipment will, no doubt, be accelerated in the trust and other paper work areas. As this develops, machine costs will begin to fit more pocketbooks, and smaller institutions will see justifi-

(CONTINUED ON PAGE 114)

The dais at one luncheon session. ***Left to right,*** **Alexander E. La Pointe, senior vice-president and trust officer, Manufacturers National Bank, Detroit, and chairman, Conference Program Committee; Dr. Philip Hauser, professor and chairman, Department of Sociology, University of Chicago, guest speaker; and Donald F. Valley, chairman, National Bank of Detroit, presiding officer**

THE TORONTO-DOMINION BANK

THE BANK THAT LOOKS AHEAD

104th Annual Statement

Comparative and Condensed

AS AT OCTOBER 31

Assets

	1959	*1958*
Cash Resources	$ 252,552,861	$ 278,806,381
Securities	457,256,898	556,968,137
Call Loans	172,045,238	177,103,240
Total Quick Assets	$ 881,854,997	$1,012,877,758
Current Loans	760,542,271	626,637,247
N.H.A. Mortgage Loans	101,213,660	66,540,437
Bank Premises	24,653,029	22,415,037
Acceptances and Letters of Credit	21,146,594	14,506,213
Sundry Assets	532,977	672,694
	$1,789,943,528	$1,743,649,386

Liabilities

Deposits	$1,678,043,773	$1,653,957,844
Other Liabilities	7,552,817	6,222,438
Total Liabilities to the Public	1,685,596,590	1,660,180,282
Acceptances and Letters of Credit	21,146,594	14,506,213
Capital Paid Up	24,000,000	20,121,688
Rest Account	57,600,000	48,292,050
Undivided Profits	1,600,344	549,153
	$1,789,943,528	$1,743,649,386

Statement of Undivided Profits

Fiscal Years Ended October 31

	1959	*1958*
Profits after depreciation and after making transfers to Contingency Reserves	$ 11,402,929	$ 9,796,351
Less: Income Taxes	5,940,000	5,050,000
Net Profit	5,462,929	4,746,351
Less: Dividends	4,171,787	2,800,000
Extra Distribution	239,951	400,000
Undivided Profits	1,051,191	1,546,351
Undivided Profits Brought Forward	549,153	1,002,802
	1,600,344	2,549,153
Transferred to Rest Account		2,000,000
Balance of Undivided Profits	1,600,344	549,153

A. C. ASHFORTH,
President

Head Office: Toronto

A. T. LAMBERT,
General Manager

(CONTINUED FROM PAGE 112)

cation for changes in methods. The coming 5- to 10-year period will, therefore, be full of opportunity for internal operations improvement." *Mr. Madill is vice-president, National Bank of Detroit.*

WILLIAM C. SHANNON: "Clearly, we must explore fully every possibility of economizing on labor through mechanization and automation techniques. We must judge the savings and rate of return on any investment involved, not on the basis of today's cost per man-hour, but on the higher wage rates which we will obviously be paying two, three, or five years hence." *Mr. Shannon is second vice-president, Manufacturers National Bank of Detroit.*

In Cooperative Partnerships, Responsibility Sharing Is Essential

ADMIRAL A. C. BURROWS: "In 1940, profit-sharing plans, according to Treasury figures, were but 5% of the total approved pension plans. In 1958, this figure for profit-sharing plans had grown to 45% of pensions. On two occasions in the past two years, the average size of companies under profit - sharing plans were larger than under those covered by approved pension plans. Today some areas of our country are installing approved profit - sharing plans to pension plans in the ratio of 2-to-1.

". . . We believe that in any cooperative partnership, the sharing of responsibility is essential. When the group motive is one in which the individual can believe, he will then want to make his contribution. It is our purpose to bring about those human relationships which are conducive to real working together." *Mr. Burrows is a rear admiral USN (retired) and president, Council of Profit Sharing Industries.*

Areas of Change in Developing Common Stock Portfolio

DR. CHARLES V. KINTER cited these areas of change which should enter into the thinking of the trust investment officer:

(1) Obsolescence in most industries because of technological progress in equipment and methods; (2) New forms of energy removing limitations imposed by geography on many industries; (3) New competition for established goods due to the development of new and better products; (4) Competition intensified by improved transportation and communications; (5) Competition in world markets; (6) More Americans with large real incomes providing new markets; (7) Demand for better living standards by peoples of underdeveloped countries; (8) Oscillation of economic conditions; and (9) Continuation of corporation tax burden on shareholders. *Dr. Kinter is managing partner, Duff, Anderson & Clark, Chicago.*

Tremendous Increases in Market Demand

DR. PHILIP HAUSER: "The magnitude and character of population changes in prospect clearly point to an era of relatively great economic expansion. . . . Levels of consumption may be expected to continue to increase. But even at 1955-1958 levels of consumption, there will be tremendous increases in demand by reason of the increased size of the market." *Dr. Hauser is professor and chairman, Department of Sociology, University of Chicago.*

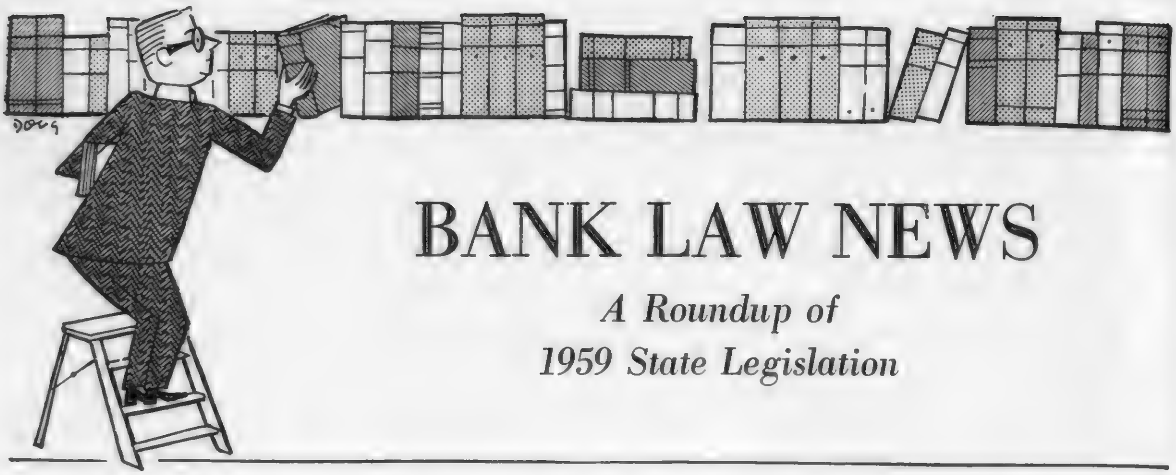
Estate Planning to Alleviate Employee Problems

MAYNARD D. CONKLIN: "During the first three years [at Champion Paper], we kept fairly accurate records; I planned over 200 estates, worked with 25 trust companies in 15 states, 64 attorneys, 52 life underwriters, and six accountants. We placed over $45,000,000 of new trust business on the books of the 25 trust companies in 15 states scattered all over the country, and helped sell over $7,000,000 of new life insurance. . . .

"The basic philosophy in back of our estate planning and personnel service department is that if we can take some of the employees' problems off of their shoulders, it relieves them. . . .

"The record bears out, I believe, that top management in banks generally speaking has not fully realized the potential value of their trust departments to their respective institutions and communities." *Mr. Conklin, a former banker, is treasurer, Champion Paper and Fibre Co., Hamilton, Ohio.*

MARY B. LEACH



BANK LAW NEWS

A Roundup of 1959 State Legislation

THE legislatures of all but three states met in regular session this year and a number of special sessions were also held.

Following is a summary of state enactments considered of interest to bankers.

A.B.A.-Recommended Statutes

The new Redefinition of Inland Bills of Exchange Act, approved at the 1959 Spring Meeting as a recommended "better banking" statute, was enacted in ILLINOIS (H.B. 1400).

There are eight other new enactments of A.B.A.-recommended laws, or modified versions thereof, in 1959: the Competency of Bank and Corporation Notaries Act in NEW HAMPSHIRE (c. 68); the Uniform Fiduciaries Act in MISSOURI (S.B. 121); the Time Limit on Stop Payment Act in ILLINOIS (H.B. 1401) and MINNESOTA (c. 88); the Uniform Principal and Income Act in MONTANA (H.B. 231); the Final Adjustment of Statements of Account Act in NEW HAMPSHIRE (c. 213); and the Uniform Trust Receipts Act in ARKANSAS (S.B. 105) and TEXAS (S.B. 237).

General Banking Legislation

ALASKA (H.B. 135) authorizes domestic bank holding companies under certain circumstances. The former law prohibited corporate ownership of bank stock. NEW YORK (c. 630) enacted a law continuing until February 15, 1960, certain restrictions on holding companies with control of banks in different banking districts of the state. Laws requiring increased capital under certain circumstances in connection with the organization of a new bank were enacted in IDAHO (H.B. 185), NEVADA (S.B. 312 and S.B. 313), SOUTH DAKOTA (S.B. 332), and TEXAS (H.B. 400). NEW HAMPSHIRE (c. 109) and UTAH (S.B. 110) authorize the issuance of capital notes or debentures. The NEW HAMPSHIRE law applies to savings banks as well as trust companies.

Laws permitting (or liberalizing prior laws permitting) limited banking facilities, drive-in branches, or parking lot branches were enacted in INDIANA (c. 125), IOWA (H.B. 124), MICHIGAN (P.A. 248), MISSOURI (H.B. 568), NEBRASKA (L.B. 338), TEXAS (S.B. 203), and WISCONSIN (S.B. 95). ALASKA (c. 160) repealed its law relating to limitations on branch banking.

INDIANA (c. 268) authorizes a bank to grant stock options to its employees or to a trustee on their behalf.

Holidays

ALASKA (c. 183) enacted a comprehensive act specifying legal holidays there. Laws relating to certain specified holidays were enacted in INDIANA (c. 341) for November 11, NORTH CAROLINA (H.B. 776) for November 11, OHIO (S.B. 263) for October 12, OKLAHOMA (S.B. 150) for November 11, and UTAH (S.B. 72) for a changed date of Arbor Day. MAINE (S.B. 74) changes Labor Day from the first to the second Monday in September.

IDAHO (S.B. 98) makes all Saturdays compulsory bank holidays. The former law made Saturdays in June, July, and August compulsory holidays. Optional Saturday or one-business-day-a-week closing laws were enacted to apply on a statewide basis in HAWAII (Act 120) and NORTH DAKOTA (S.B. 61). An optional statewide Saturday closing law applicable to June, July, and August was enacted in WYOMING (c. 54), while INDIANA (c. 345) authorizes optional bank closing on a day following certain holidays. UTAH (S.B. 139) authorizes optional bank closing on all Saturdays where the bank elects to remain open on certain specified holidays. NORTH CAROLINA, SOUTH CAROLINA, and VIRGINIA extended optional Saturday closing to additional areas.

Loans and Investments

A number of 1959 state laws authorize banks to make certain investments in or loans to small business investment companies. Some 1959 state laws also authorize investment by banks in obligations of various U. S. agencies.

MICHIGAN (P.A. 238) authorizes banks to purchase instalment paper from dealers in tangible goods sold on credit, while MISSOURI (H.B. 287 and 288) exempts such purchases, with recourse, from its laws limiting loans to one borrower. CALIFORNIA (c. 872) and WISCONSIN (c. 253) exempt loans secured by certain U. S. obligations from limitations on loans to one borrower.

MONTANA (H.B. 179) and NORTH DAKOTA (S.B. 161) liberalize restrictions on the terms of mortgage loans, while GEORGIA (S.B. 47) exempts real estate loans under $5,000 from certain restrictions on real estate loans. NEW YORK (c. 241) authorizes the state banking board to exempt, by regulation, certain real estate loans from legal limita-

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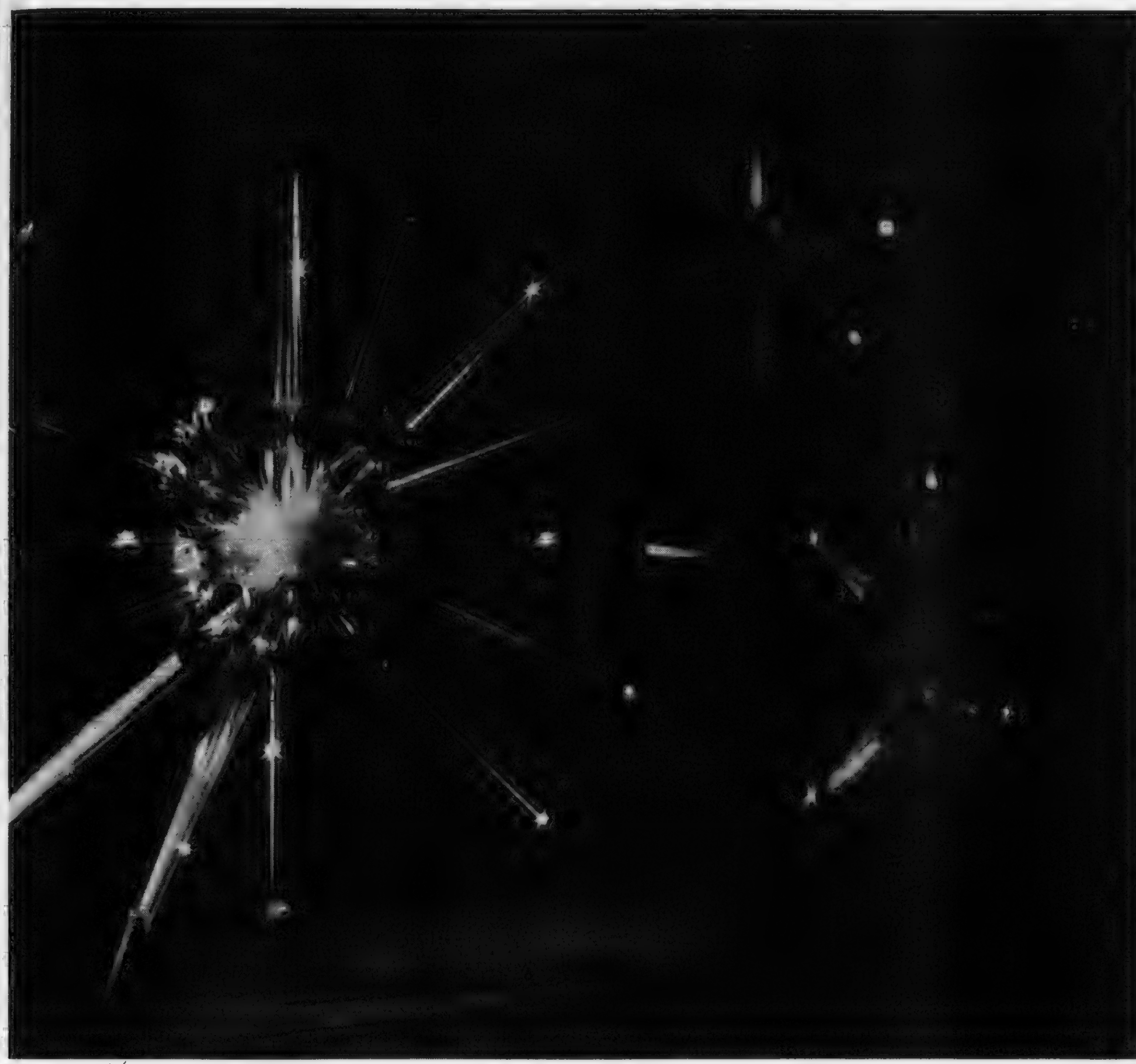

(CONTINUED FROM PAGE 116)
tions on real estate loans and also exempts from such limitation mortgage loans to industrial, manufacturing, or utility enterprises where repayment from operational income may be reasonably expected. OREGON (c. 383) authorizes certain construction loans. WYOMING (c. 69) authorizes open-end chattel and real estate mortgages.

Deposits

NEVADA (S.B. 72 and 284) revised its laws relating to the payment of interest on deposits of public funds. The new laws provide that the state treasurer shall determine the amount of inactive deposits of state funds and the interest rate thereon. Provision is also made for transfer of funds from inactive to active accounts and certain waiver of interest by the state treasurer. Provision is also made for interest on inactive accounts of county funds.

The Uniform Disposition of Unclaimed Property Act was enacted in CALIFORNIA (c. 1809), applicable to bank deposits dormant 15 years or more, and in NEW MEXICO (H.B. 35), applicable to bank deposits dormant 10 years or more. MAINE (c. 29) extends the coverage of its law respecting dormant deposits to demand deposits as well as savings deposits.

Interest

CONNECTICUT (S.B. 125) authorizes banks to charge certain prepayment fees, delinquent fees and certain other fees without regard to the 6% legal rate of interest. HAWAII (Act 95) authorizes a contract rate on certain bank loans of 1% per month. ILLINOIS (H.B. 1532) authorizes interest on certain instalment loans of 7% added on to principal. OREGON (c. 365) authorizes a contract rate of 12% interest on loans to corporations, except eleemosynary or nonprofit corporations. The regular contract rate remains at 10%. SOUTH CAROLINA (S.B. 239) authorizes loans at a rate of interest in excess of usury law limitations to certain corporations.

Bank Instalment Loans

IOWA (S.B. 110) raises the bank instalment loan maximum from $2,500 to $5,000, and the maximum term from 37 months to five years. MICHIGAN (H.B. 225) increases the maximum limit on an "industrial" loan to $10,000 or 3% of unimpaired capital and surplus, whichever is greater. NEW MEXICO (S.B. 33) adopted a new law regulating bank instalment loans up to $3,500 and providing for maximum interest at the rate of $7 per $100 if unsecured and $6 per $100 if secured. RHODE ISLAND (H.B. 1625) increased the maximum amount of such a loan from $1,000 to $3,000, and the maximum term from 18 to 36 months.

NEW JERSEY (c. 91) enacted a statute specifically permitting a bank to make "check loans" or personal revolving credit loans, which would authorize a bank to pay a check of the borrower, regardless of the state of his account, up to a maximum of $2,500. Repayment of such a loan may be in monthly instalments, and the maximum interest rate is 1% per month on unpaid balances, plus delinquent charges, if any, and a service charge.

Credit Transactions

TENNESSEE (c. 114) enacted a new "accounts receivable" law requiring filing but not requiring notice to an account debtor that his account has been assigned. IDAHO (H.B. 184), NEBRASKA (L.B. 634), and UTAH (S.B. 100) amended their "accounts receivable" laws to cover moneys due and to become due under future contracts entered into by assignor during the effective period of filing. COLORADO amendments (S.B. 180) to its "accounts receivable" law provide, among other things, that an assignment is not invalidated where the assignor retains the right to collect and commingle moneys due and to become due.

FLORIDA (H.B. 645) and NORTH DAKOTA (H.B. 572) adopted new factor's lien laws. CALIFORNIA (c. 1914) adopted a law permitting inventory liens on any and all merchandise of a designated kind or class where covered in a written agreement signed by a borrower.

Among laws relating to chattel mortgages, CALIFORNIA (S.B. 167) authorizes such a mortgage covering future advances, while WYOMING (c. 69) authorizes open-end chattel and real estate mortgages. COLORADO (S.B. 171) amended its chattel mortgage law to permit such a mortgage to cover after-acquired property; to validate any filing giving a general description of mortgaged personalty; and to provide that such a mortgage is not invalid by reason of the liberty of the mortgagor to use, commingle or dispose of the mortgaged property or its proceeds, to accept the return of goods, or to effect repossession.

CALIFORNIA (c. 201), COLORADO (H.B. 309), and TENNESSEE (c. 219) enacted laws regulating the terms of retail instalment sales on credit of goods other than motor vehicles. The enactments do not include licensing provisions. The CALIFORNIA law also regulates "add on" sales and revolving credit charge agreements. FLORIDA (H.B. 1109) enacted a retail instalment sales act applicable to goods other than motor vehicles, which includes licensing and regulatory provisions and covers revolving credit charge agreements. MONTANA (H.B. 89) enacted an "all goods" act with licensing requirements, applicable to time sales of goods, including motor vehicles, and services. NEBRASKA (L.B. 652) enacted a retail instalment "all goods" sales law also applicable to time sales of motor vehicles, which includes licensing and regulatory provisions. Another NEBRASKA law (L.B. 301) regulates revolving credit charge agreements, and a NORTH DAKOTA law (H.B. 539) also regulates such agreements. OHIO (S.B. 246) also brings revolving budget agreements within the terms of its retail instalment sales law. CONNECTICUT (P.A. 589) redefines
(CONTINUED ON PAGE 120)

"Come, come, Avery! Is that the merriest you can look?"

(CONTINUED FROM PAGE 118)

"goods" for purposes of its law as including all "chattels personal" involved in any one retail instalment sale or instalment loan contract, and having an aggregate cash value of $3,000 or less. NEW MEXICO (S.B. 165) adopted a retail instalment sales law applicable to motor vehicles, and providing for licensing and regulation. Such a law was also adopted late in 1958 by MASSACHUSETTS (c. 674). FLORIDA (H.B. 1309) amended its motor vehicle retail instalment sales law to require licensing and also made other changes.

Taxation

Several new laws relating to taxes on bank deposits are noted here. KANSAS (H.B. 21) amended its tax on money, notes, and other evidences of indebtedness to provide a tax at the rate of 3% of the income therefrom unless the taxpayer affirmatively exercises an election to be taxed at the rate of five mills per $1 of value. MICHIGAN (H.B. 649) raised its tax on bank deposits from 1/25 of 1% (40 cents per $1,000) to 50 cents per $1,000. SOUTH DAKOTA (S.B. 212) increased the exemption from its "moneys and credits" tax (applicable to interest bearing deposits) from $5,000 to $15,000.

MASSACHUSETTS (c. 31) and RHODE ISLAND (H.B. 1729) extended their existing taxes on banks. KANSAS (H.B. 327) excludes from "gross income" dividends received from banks. UTAH (H.B. 57) imposes a new 4% tax on the net income of banks and certain other corporations not subject to the corporation franchise tax of that state or expressly exempt from that tax. CALIFORNIA (c. 1127) increased its maximum rate of tax on banks and financial corporations from 8% to 9½%, and the minimum rate from 4% to 5½% of net income. PENNSYLVANIA (H.B. 661 and 662) increases the rate of tax on bank shares, on a temporary basis.

Uniform Commercial Code

CONNECTICUT (H.B. 2070) enacted the Uniform Commercial Code, effective October 1, 1961. NEW HAMPSHIRE (c. 247) also enacted the Uniform Commercial Code, effective July 1, 1961. PENNSYLVANIA (S.B. 689) enacted the latest version of the Code to replace its earlier Code enactment.

To wish its friends in the financial community a Merry Christmas and a Prosperous New Year

Christmas Club a Corporation increases its national advertising to bring more members to your door

This year's expanded national advertising and promotion program is added evidence (if any were needed) of our continuing faith in the Christmas Club idea.

Once again we wish to say how much we value this opportunity to serve our good friends in the financial community. Your continued confidence is our most cherished asset. To all of you from all of us we wish a joyous and successful holiday season.

Christmas Club
a Corporation

Founded by Herbert F. Rawll

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BUILDS CHARACTER • BUILDS SAVINGS • BUILDS BUSINESS FOR FINANCIAL INSTITUTIONS

Methods & Systems

(CONTINUED FROM PAGE 39)

check list for revolving credits and/or term loan agreements. It is being made available to interested banks.

The check list is designed to bring about "a clear and rapid understanding among loan officers, credit men, and lawyers" participating in the preparation of revolving credit and term loan agreements. It was compiled in a management study made by Llewellyn Jenkins, Hanover assistant vice-president, in fulfillment of a requirement for graduation from the Graduate School of Credit and Financial Management at Dartmouth College.

Bound in a manila folder, the list is arranged so that the 139 "check points" on one side may be matched against or referred to corresponding explanatory notes and exhibits on the opposite side.

The list includes such sections as representations and warranties, the revolving credit, the term loan, participation arrangements, prepayments, authorized signatures, guarantees, conditions of lending, provisions for collateral, affirmative covenants, negative covenants, defaults, and miscellaneous.

Electronic Banking Explained in Display

The history of bank checks is traced in a display shown at the Fidelity-Philadelphia Trust Company's main office. The purpose of the exhibit, which includes a scale model of the bank's computer, is to explain the need for adapting electronics to banking to meet the increased business and to give the depositor greater protection against errors.

Equipment News

The First National Bank of Arizona, with headquarters in Phoenix, plans to install an electronic demand deposit system with the General Electric 150 computer as a major component.

The First National Bank of Boston's "Name Code" procedure, a unique method of filing accounts alphabetically on its Datamatic 1000 computer, is described in a booklet by B. W. Taunton, assistant comptroller.

Instalment Credit

(CONTINUED FROM PAGE 93)

sylvania Bankers Association Summer School which met at Bucknell University last August, John W. Jones, Lancaster (Pa.) County National Bank vice-president, predicted that check credit may be the standard medium for not only personal loans but small loans and commercial, in about a decade.

Says Mr. Jones: "In those states where the Uniform Commercial Code has been adopted, with its broad provisions for acquiring security interest in after acquired property, providing for floating liens, and liberalization of the concepts of absolute dominion, the check credit theory might be a very practical one for use in the areas of inventory and accounts receivable lending, although there could be problems in noncode states.

"However, in the field of unsecured lending, this certainly bears looking into and may well develop over the next decade."

General Volume Up, Says A.B.A. Credit Report

THE first effects of the nationwide strike in steel were reflected in the quarterly report of the Advisory Board to the Instalment Credit Commission of the American Bankers Association, covering the period ended September 30.

"Even though the steel strike appears to have depleted inventories of new automobiles and other equipment, the volume of lending to consumers is generally higher." The report noted a decline in dealer loans on new automobiles indicative of low inventories.

The report says: "Even though prime rates and interest generally are advancing, a majority of the banks are keeping charges on direct consumer instalment loans at the same levels reported earlier in the year.

"A substantial number of banks continue to report increased lending for farm equipment, mobile homes, and boats.

"Retail terms are holding to a maximum of 36 months on new cars and 24 months on used cars. However, the report shows that many banks have increased the interest charged on loans for floor planning on automobiles. On dealer originated paper and on dealer paper purchased, some increases in retail rates were noted. The increases reported on direct loans are only a fraction of the banks, as compared with increased rates on floor plans reported by half of the reporting banks.

"There is a decline in automobile repossessions, and losses on automobile loans remain about constant. The average losses on direct loans stood at $257 and on dealer paper $297, compared with $251 and $267, respectively, shown on June 30. Charge-offs on other loans were negligible and averaged $234.

"One of the big categories in which instalment credit volume appears to be advancing is in personal loans. A part of this rise is seasonal, reflecting family expenditures in preparation for winter and the holidays; and in part, the increase may be the result of interest in revolving check credit and may also be an expression of confidence on the part of people in continued prosperous business conditions."

Soon...Cheaper atomic power

General Electric Vallecitos Atomic Laboratory. Here, in California's Livermore Valley, U.S. Steel sponsors the first large-scale, privately financed study of radiation effects on steel. Project will hasten the advent of low-cost atomic power.

This G.E. technician adds a touch of glamour to the serious business of making a radiation count on foil samples removed from General Electric Test Reactor. She works in a mobile lab made available to the project.

Housing and Mortgages

(CONTINUED FROM PAGE 96)

of four regional mortgage conferences in 1960, aimed at providing mediums of discussion of conditions and trends within the industry. Ernest P. Schumacher, president, Schumacher Mortgage Company, Inc., Memphis, is chairman of the conference committee and will direct the series.

The series will open with the Midwestern Mortgage Conference in Chicago, Conrad Hilton Hotel, February 29 to March 1.

A Southern Mortgage Conference will be held in the Robert Meyer Hotel, Jacksonville, Fla., on April 4 and 5.

The Western Mortgage Conference will be held at the Paradise and Jokake Inns, Phoenix, April 21 to 23.

The fourth and final meeting will be the Eastern Mortgage Conference, Hotel Commodore, New York, May 2 and 3.

MBAA to Sponsor January Executives' Conferences

THE Mortgage Bankers Association of America will sponsor two Senior Executives' Conferences in January in cooperation with leading universities. The first of these, on January 19 to 21, will be held in collaboration with New York University in New York and the second on January 24 to 26 in collaboration with Southern Methodist University in Dallas.

The conferences are aimed at providing a medium of discussion, for senior executives of mortgage originating and investing institutions, of the basic trends and developments in the economy, and their influence and application in the mortgage industry.

GI Repayments Improve

THE record of veterans in maintaining their mortgage loan payments was better during the first nine months of this year than it was a year ago, in contrast with slightly higher delinquencies for holders of FHA insured loans and for conventional-type mortgages, according to the national delinquency survey published by the Mortgage Bankers Association of America.

VA loans one month delinquent stood at 2.05% on September 30, as against 2.06% a year ago. For FHA loans, the ratio was 1.50% as against 1.45% and for conventional type mortgages — those neither insured nor guaranteed by Government agency—the ratio was 1.05% as against 1.03% a year ago.

58% of Nonfarm Families Own Homes; ½ Debt-Free

FIFTY-EIGHT percent of America's nonfarm families own their homes today, and almost half of these homes have no mortgage debt outstanding, the National Industrial Conference Board reports. Ten years ago, by contrast, only 51% of the nonfarm families were homeowners.

More than half of today's nonfarm homeowners estimate their dwellings have market values ranging between $5,000 and $15,000, while one-sixth place theirs at $20,000 or more.

Forty-four percent of the nonfarm homes have no mortgages.

JUNE PORTER, *Winner of Mosler's 1959 Miss Drive-In Teller Contest. She is one of the charming tellers at Mercantile Bank & Trust Company, Kansas City.*

HERE'S THE GIRL YOU ELECTED MISS DRIVE-IN TELLER 1959

It was a close race. With the three lovely finalists you met at the ABA Convention, it had to be close. Gwen Clark, representing the United States National Bank of San Diego, and Grace Brown, representing the Trust Company of Georgia, can be proud of the showing they made. But, there can only be one queen, and you elected June Porter, Drive-In Teller at the Mercantile Bank and Trust Company of Kansas City, Missouri. As Mosler's 1959 Miss Drive-In Teller, this former model and mother of twins will receive an all-expense-paid vacation for two at the Plantation Inn, Ocho Rios, Jamaica, B.W.I.

June and all the other entrants for the title of Miss Drive-In Teller symbolize the growing popularity and vitality of automotive banking in America.

Mosler is proud of its part in pioneering auto-banking.

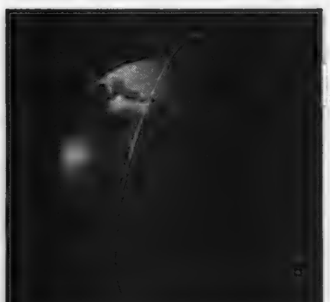
THE MOSLER SAFE COMPANY

320 Fifth Avenue, New York 1, N.Y.

Why Lockheed's all-purpose AGENA is

America's most versatile satellite

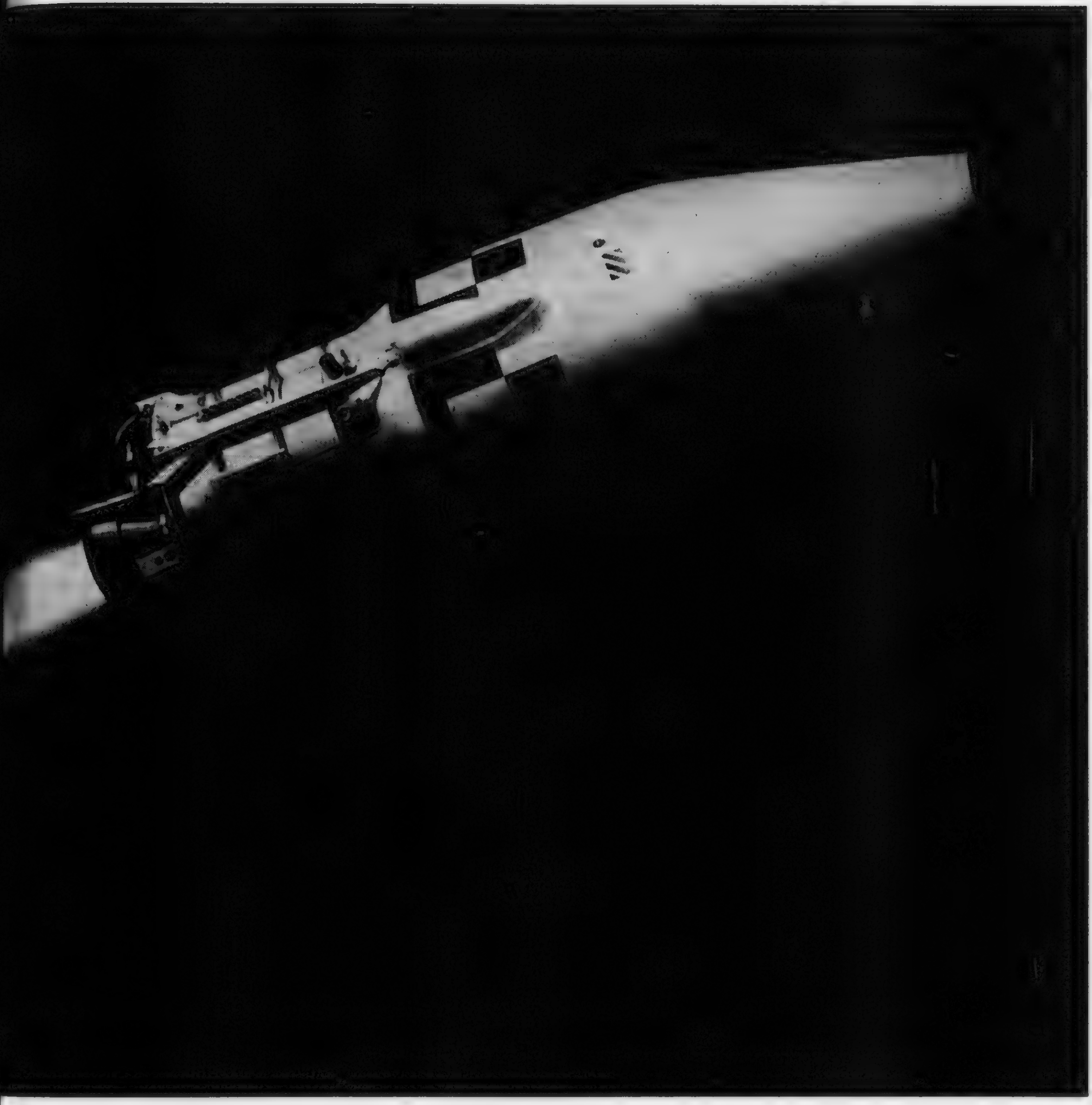
AGENA satellites made these Discoverer Program "Firsts"...



First to be put on a polar orbit. Only the Agena, with its horizon-scanner and its response to signals from earth, can be placed on a precise, predicted orbit over the pole.

First to be controlled on orbit. The Agena is also unique in its ability to be turned 180° to a tail-first position and tilted to a 60° downward angle for capsule ejection.

First to carry new systems into space. The Agena has proved out many devices — control, communication, telemetry, life-sustaining — to be used in other advanced space programs.



29 S.G.S.B. Theses Approved for A.B.A., Rutgers, and Harvard Libraries

TWENTY-NINE bankers, members of the class of 1959 at The Stonier Graduate School of Banking, have been notified that the theses which they wrote as a requirement for graduation from the school last June have been selected to be placed permanently in the libraries of the American Bankers Association; Rutgers — The State University, New Brunswick, N. J.; and The Graduate School of Business Administration at Harvard University, Cambridge, Mass.

The significance of this honor to the 29 bankers is indicated by the fact that of the 343 theses submitted by the members of the class of 1959, only these were chosen for recognition.

A recommendation from a panel of examiners specializing in the subject which the thesis covers for library acceptance is made to the Library Thesis Committee of the school, and then each thesis is critically reviewed by additional expert readers before final selection is made. In its final examination of the theses, the committee considers: (1) usefulness of subject matter; (2) adequacy of research; (3) defense and soundness of conclusions; (4) factual accuracy; (5) organization and readability; and (6) thesis form and grammatical correctness. Thus, only those that are outstanding are chosen to be made a part of a permanent collection of banking literature.

Alphabetical Listing

The bankers whose theses have been selected for this honor and the subjects on which they wrote are:

Edward W. Asplin, assistant secretary, Northwestern National Bank, Minneapolis.

Subject: "Management Inventory and Development for Multi-Unit Banking Systems."

Julian M. Bond, assistant mortgage officer, East River Savings Bank, New York.

Subject: "Effects of Postwar Inflation on Net Income of Urban Properties, 1946-1957."

John Peter Camilli, trust officer, First National Bank and Trust Company, Lima, Ohio.

Subject: "Tax Consequences of Terminated Estates and Trusts under Internal Revenue Code of 1954."

Robert A. Eden, comptroller, Society for Savings, Hartford, Conn.

Subject: "The Application of Uniform and Sound Accounting Principles and Practices to Mutual Savings Banks."

Gardner Charles Ferguson, assistant manager, Foreign Division, First

(CONTINUED ON PAGE 132)

(CONTINUED FROM PAGE 130)

National Bank of Boston, Massachusetts.

Subject: "Extension of Credit to Foreign Banks."

F. Perry Foster, corporate trust officer, Bank of Delaware, Wilmington, Del.

Subject: "Simplification of Fiduciary Security Transfers: Efforts and Results."

Owen H. Froehle, assistant cashier, American National Bank, St. Paul.

Subject: "Bank Loans Secured by Assigned Accounts Receivable."

James A. Fryatt, assistant vice president, The Chase Manhattan Bank, New York.

Subject: "Problems Concerning Inter Vivos Gifts, Joint Tenancies, and Totten Trusts as Assets of Decedents' Estates."

Ilon Owen Funderburg, cashier, Mechanics and Farmers Bank, Durham, N. C.

Subject: "An Analysis of Operating Problems of a Bank Serving a Predominantly Negro Market."

Leonard P. Gisvold, vice-president, Northwestern National Bank, Minneapolis.

Subject: "The Country or Rural Bank as an Investment."

Robert E. Hauser, assistant cashier and assistant secretary, Citizens National Bank, Los Angeles.

Subject: "An Examination of Attachments, Executions, and Related Collection Devices Served on Banks in California."

Gordon M. Hayes, vice-president, Hayes National Bank, Clinton, N. Y.

Subject: "Effective Advertising in a Country Bank."

Albert H. Heimbach, vice-president, Farmers & Mechanics Savings Bank, Minneapolis.

Subject: "The Importance of Adequate Internal Communications in Employee Relations."

Carroll S. Jackson, assistant cashier, First National Bank, Baltimore, Md.

Subject: "Viewing Industrial Equipment Leasing with Caution."

John F. Kelso, assistant secretary, Wilmington (Del.) Trust Company.

Subject: "The Corporate Executor Faces the Widow."

Roger Adrian Lyon, assistant vice-president, The Chase Manhattan Bank, New York.

(CONTINUED ON PAGE 134)

"*National* POST-TRONIC machines save us 54% annually on our investment."

—SOTTILE GROUP BANKS, *Miami, Florida*

"The Sottile Group Banks have planned a step-by-step program toward full automation of the operations departments. The first step—electronic posting with the National POST-TRONIC—has been completed. From the performance of the POST-TRONIC during this first year, we estimate the machines are giving us an annual return of 54% on our investment.

"The electronic functions of the POST-TRONIC enable us to give the best of service to our depositors. The simplicity of the equipment removes the problem of training operators; the automatic features make for speed and accuracy; and the high posting capacity of each machine creates important savings in personnel and floor space.

"In subsequent steps of the Sottile automation program, additional automatic components will be linked to our present POST-TRONIC machines, leading to a fully-automated National System."

James Sottile Jr.

Operating Head
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(CONTINUED FROM PAGE 132)

Subject: "Commercial Bank Investments: Developing a Flexible Investment Policy for the Medium-Sized Bank."

Rudolph E. Palluck, assistant vice-president, First National Bank, Chicago.

Subject: "Bank Term Loan Policies and Practices."

Harry E. Parker, Jr., assistant vice-president and assistant trust officer, First National Trust and Savings Bank, San Diego, Calif.

Subject: "Estate Planning Problems of California Transfer Residents."

C. W. Poindexter, assistant trust officer, Citizens Fidelity Bank & Trust Company, Louisville, Kentucky.

Subject: "The Short Term Trust: Its Uses and Applications."

Alan Bradford Purdy, assistant treasurer, Chemical Bank New York Trust Company, New York.

Subject: "Computers and Bank Automation."

Robert T. Schneider, assistant treasurer, Marine Midland Trust Company, New York.

Subject: "Automation of Check Handling and Deposit Accounting."

Harold W. Sichter, cashier, The Third National Bank & Trust Company of Dayton, Ohio.

Subject: "Aspects of a Bank Management Audit as a Forward Planning Tool."

Gavin Spofford, assistant secretary, The Hanover Bank, New York.

Subject: "Measuring Economic Potential for New Unit Banks."

William C. Stein, vice-president and comptroller, First National Bank, Albuquerque, N. Mex.

Subject: "The Uranium Minerals Industry."

Lee Charles Tashjian, assistant trust officer, Farmers Bank of the State of Delaware, Wilmington, Del.

Subject: "The Estate of Stephen Girard and the Future of Charitable Trusts."

Jarvis M. Thayer, Jr., assistant cashier, Federal Reserve Bank, Boston, Mass.

Subject: "A Guide to Systems and Procedures Studies in the Smaller Bank."

Robert C. Thoman, bank representative, Federal Reserve Bank of New York.

Subject: "Evolution of the Bank and Public Relations Program of the Federal Reserve Bank of New York."

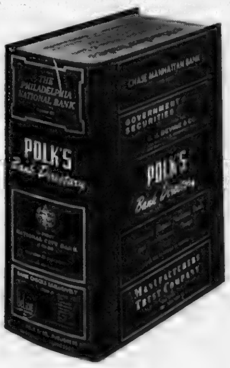
William David Webb, assistant secretary, Jenkintown Bank and Trust Company, Jenkintown, Pa.

Subject: "Pension, Profit-Sharing, and Stock Bonus Plans for Small Banks."

Henry Martin White, Jr., assistant treasurer, The Bank of New York, New York.

Subject: "Use of a Trustee in Financing Equipment Leases."

The theses listed above will be available for reference at the A.B.A. Library at 12 East 36th Street, New York City, which is open to the public. They will also be circulated on request to A.B.A. member institutions and graduates or students of The Stonier Graduate School of Banking. Circulation is limited to continental United States; only one thesis may be borrowed at a time; and it may be retained for one week. The borrowers are required to pay return shipping costs. The theses will be ready for distribution about January 15, 1960.



Gordon Murray, President
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Credit Industries Are In Good Shape

Banker Tells Finance Men:

Analyses of the rest of the year remain to be seen, but the credit industry had already done, by the mid-point of 1959, two-thirds as much total business as it had done in 1958, according to Ray H. Matson, First National Bank of Chicago vice-president.

Some of his observations on the entire instalment finance picture, as delivered to representatives of independent sales finance companies at the American Finance Conference in New York last month follow:

Measured against the 1958 total of $18.3-billion, volume for the first half of 1959 aggregated approximately two-thirds of that amount, or $12.3-billion. A substantial portion, of course, was in the fast-turning wholesale paper, but it is to be noted that aggregate receivables increased 15% between December 31, 1958 and June 30, 1959. **It is significant that for the first time since the compilation of our ratios, aggregate receivables of the composite companies passed the 10 billion dollar mark, standing at 10.2 billions.** Due to the nature of your business, whereby income on retail paper purchases is taken up over the life of the contract, coupled with an ever increasing expense factor, the increases in volume and outstandings were not reflected in greater net profits. In relation to average net worth, net profits equalled 5.17% for the first six months of 1959, as compared with a semi-annual and annual rate for 1958 of 5.09% and 10.84% respectively.

Possibly the most significant and dramatic change between the first six months of 1958 and the first six months of 1959 is in the ratio of net losses to retail paper liquidated. In the first half of 1958 this ratio reached the third highest level in 23 years—1.50%—while in the same period in 1959 an improvement of 25% was shown, or to 1.12%. Despite the problems created by the steel strike, which has caused slow collections in some areas, I feel confident this ratio will show a further improvement for the full year. I would not be surprised if, for the full year, it will go below 1%, which some analysts regard as par for the course.

Seventy-three percent of new car paper purchases for the first six months of 1959 had maturities longer than 30 months, which for all practical purposes is 36 months. This compares with 64% for the full year 1958 and 56% for the first six months of 1958. Used car paper in both the recent and older categories showed higher percentages of paper having the longer maturities. Recent used car paper (that is, current and two preceding models) showed 63% of volume maturing over 24 months, as compared with 50% in 1958. On the older used car paper, 59% of volume had maturities over 18 months as compared with 48% in 1958. The percentage of paper purchases with high advances continues to increase—35% of new car retail volume showed advances of over 100% of dealers' cost as compared with 29% for the full year 1958. Among used cars, 41% of retail volume had advances over 100% of wholesale value, against 35% in 1958.

Financing Agriculture

(CONTINUED FROM PAGE 79)

Wachovia Bank and Trust Company, Winston-Salem, N. C.; O. "Dooley" Dawson, vice-president and manager, agricultural department, Bank of the Southwest, Houston; and R. J. Solomon, assistant vice-president and farm department manager, Citizens National Bank, Macomb, Ill.

Keeping Free Enterprise Free

The concluding address of the conference at the Tuesday luncheon was by Robert C. Liebenow, president of the Board of Trade of the City of Chicago.

Speaking of the growing place of government in the economy he said:

"In the beginning, when the forefathers of this country drafted the Constitution, they assigned the Government only the functions they considered legitimate for it to assume—foreign affairs, national defense, law enforcement, the postal service, to name but a few. Basically, they envisioned the Government's role in society as that of policeman, endowed with a body of law and armed with the force needed to back it up.

"The United States Government of today, I fear, has long since stopped operating within the framework of these ground rules for it appears to me that we are being spoonfed welfare schemes; a bite at a time, that will soon turn us into a socialistic state. And who is to blame? I would say a population that is apathetic, selfish, and that lacks responsibility and moral courage. The U. S. public—each and every one of us—are the failures of the 20th Century upon which big government breeds and thrives."

The ninth National Agricultural Credit Conference will be held in Denver, November 14-15, 1960, at the Denver Hilton Hotel.

The NACC audience listens intently as speakers develop their topics


ST. LOUIS RIVER FRONT
Excursion Steamer Admiral
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The Goldenrod Showboat
Sincere best wishes
for a merry christmas
and a happy new year
First National Bank in St. Louis

A Banker's View of

ELLSWORTH A. HANDY

Financing Automobile Leasing

Here are some highlights of a talk given by Ellsworth A. Handy, vice-president at Harris Trust and Savings Bank, Chicago, to a recent national meeting of the American Automotive Leasing Association held in that city. The AALA, organized in 1955, counts in its membership some 60 companies, who have fleets of from 100 to 5,000 cars.

THE operation of leased automobiles falls under two main classes of lease. One is the "true lease," under which a fleet of automobiles is owned by a lease operator who undertakes the maintenance and servicing of the fleet, including casualty type insurance, and risks the loss or gains the profit on the sale of the automobiles at the expiration of the lease.

The second class of lease is the "equipment trust lease." Under this plan, title to the automobiles is placed in the name of an agent or trust (who obtains a monthly fee), with financial institutions financing the cost of these vehicles based on the rental value of leases signed generally by substantial corporations. . . . The sound financing of this type lease merely depends upon the adequacy of the lease as a legal instrument, and on the financial responsibility and stature of the lessee corporation itself.

Financing the "True Lease" Operator

The problems of financing the first class . . . "true lease" . . . of operator—that is, the one who owns automobiles, undertakes to maintain and insure them at his expense, and assumes the risk of profit or loss on the sale of the unit after the lease expires . . . is somewhat more complicated.

This type of operation requires capital on the part of the operator, a profitable lease operation during the period the units are on lease, and a successful sale of the used units as the leases expire to provide a safe program for repayment of any financing whether it be in the form of unsecured loans or loans secured by liens on the vehicles and/or assignment of leases.

Even though financing is obtained on individual units, capital in the form of an investment by the operator is necessary to provide some margin of safety to the financing institution and to cover day-to-day operations of the business. . . . The first cushion against a bad experience in a particular market or model is the normal profit of this business; and second, the capital of the company being financed.

The balance sheet of a more or less typical operation will show varying levels of cash depending upon the season or the demands of

(CONTINUED ON PAGE 150)

AROUND THE CLOCK, San Francisco hums with foreign-trade activity while Crocker-Anglo bankers keep in constant touch with a worldwide network of correspondent banks. At left, H. L. Mark; A. Taapken, VP and Manager of International Banking Department; G. Scott Runyan, Asst. VP in charge of the Asian Division.

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AROUND THE WORLD, ships this year will deliver more than $600 million in exports from San Francisco Bay Area, while imports will add nearly a half billion to the area's foreign commerce. City by the Golden Gate also has one of the world's busiest international airports, where flights originate to Europe, Asia, Australia, the Pacific islands, and many points in Latin America.

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MEMBER FEDERAL RESERVE SYSTEM
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Examination Costs

(CONTINUED FROM PAGE 41)

Further support of this conclusion is found in the fact that a good many banks are recognized by the supervisory authorities and other competent analysts to be in unquestionably sound condition with favorable earnings, desirable trend, and excellent management. Moreover, such banks generally enjoy a record of putting service to the community uppermost in their policies. Several of the banks in the class described have organized their own loan review departments whose function is to unearth the weaker credits and deal with them effectively before the government examiner is obliged to bring them to the attention of management.

Examinations Geared to Needs

In these institutions of recognized top quality (we might classify them as Grade A 1) the time may have arrived to consider whether they warrant as frequent examination, or the same type of examination, as would be applicable to the less favorably regarded banking organizations. If this premise has merit, the banking fraternity (including the regulatory agencies) may well decide to re-assess the over-all objectives and concepts of bank examinations with the view of revising methods and procedures to be tailored for individual institutions according to their grading.

This review should also encompass the need for better coordination of the three types of examinations and audits—governmental, outside accountants, and internal auditors. It should explore means to develop further recognition and mutual acceptance by these groups of designated areas of examination and audit. One of the chief objectives would be to reduce the frequency (and, therefore, the cost) of examinations through eliminating duplication of coverage by setting up standards of procedure that each examining group would agree to accept as adequate for its own program.

Certain procedures might be assumed each year by a different group. For example, if the internal auditor had directly confirmed a satisfactory proportion of loans and deposits on an approved basis, both the CPAs and the government examiners would accept such performance. The following year the CPAs might conduct certain verifications which would be acceptable to both the supervisory authority and the internal auditor. This would introduce into the realm of examination and audit a sort of interchangeability of standardized parts (or procedures), a characteristic which has so successfully helped this country achieve worldwide leadership in the manufacturing field.

Some of the questions which the supervisory authorities will want to probe include the following:

(1) How to curtail further the purely mechanical and statistical aspects of their examination.

(CONTINUED ON PAGE 144)

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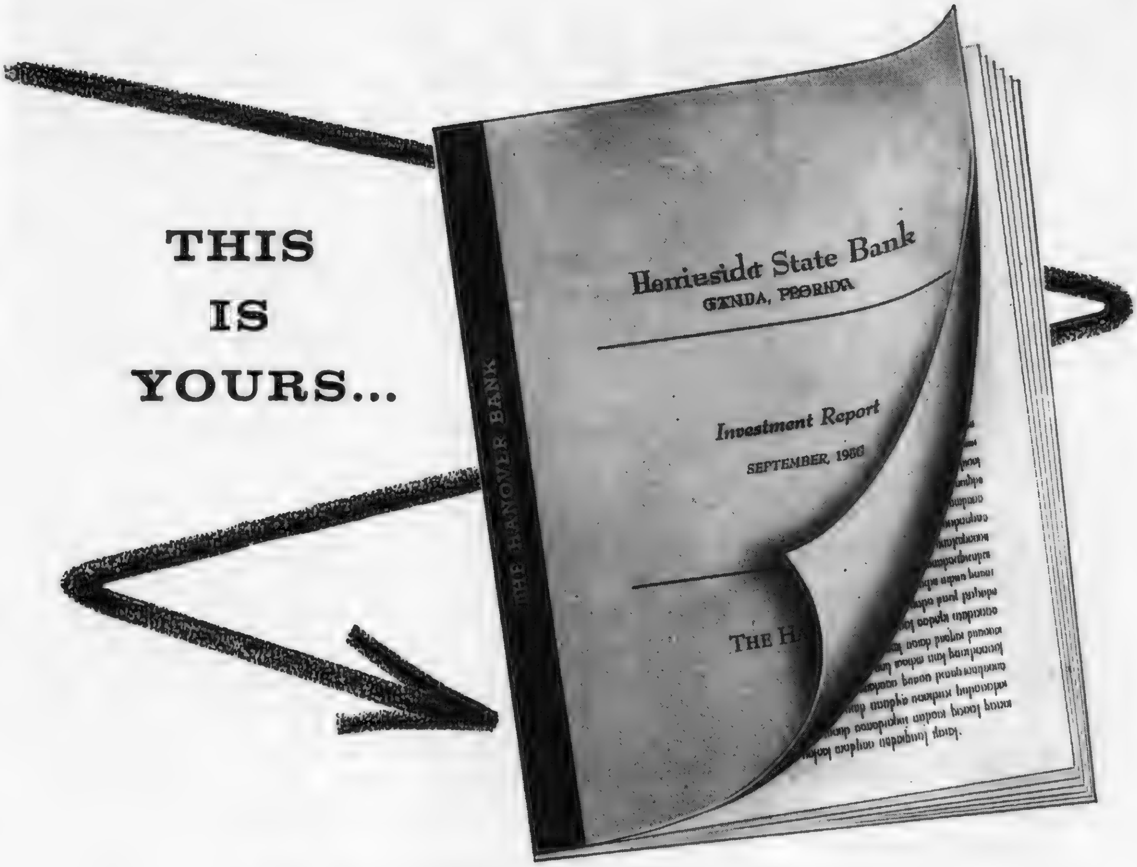

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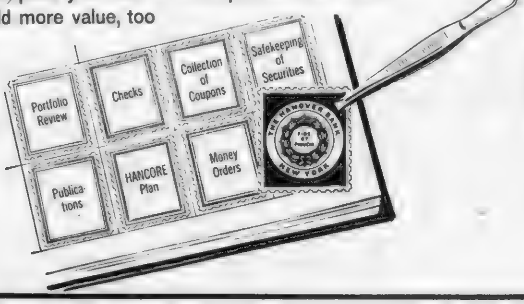


THE HANOVER BANK
NEW YORK

Member Federal Deposit Insurance Corporation

(CONTINUED FROM PAGE 142)

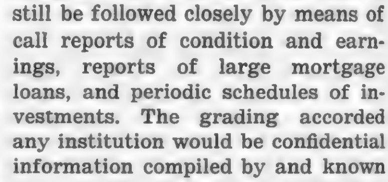
(2) Whether their efforts should be confined solely to statutory responsibilities which include determination of solvency, appraisal of assets, sufficiency of earnings, extent of liabilities, and evaluation of policies of management, trend, and service to the community.

(3) How to guard further against "snowshoe" methods of examination under which the examiner in sustained inflationary periods may tend merely to follow in the footsteps of his predecessor. This method presumes that ever-rising values can be counted on to provide an easy transformation of assets which, perhaps risky today, will surely be sound tomorrow.

(4) What additional phases of examinations and audits performed by internal and external auditors that meet specified standards could be accepted to avoid duplication.

(5) What criteria or standards to use, in addition to the orthodox yardsticks, under which institutions classified as superior by the supervisory authorities, would be examined less frequently.

The condition and affairs of these top-graded banks would, of course, still be followed closely by means of call reports of condition and earnings, reports of large mortgage loans, and periodic schedules of investments. The grading accorded any institution would be confidential information compiled by and known only to the supervisory authority. Standards adopted as the basis for grading, however, should be made known to the financial institutions.



"Now for a change of pace, I give you a man who needs an introduction."

New Business

(CONTINUED FROM PAGE 42)

(1) Am I the administrative type and have I sufficient experience in managing a business to know that I am suited to that kind of work?

(2) Can I handle people—such as employees or the public? This can be answered only by experience.

(3) Do I know enough about sales resistance so that salesmen will not load my business up with nice gadgets or products which do not increase profits but cause me to take on too much debt?

(4) Do I have sufficient experience in this type of business to know how to buy wisely? Or when not to expand?

(5) Do I know enough about credit to be able to make collections from slow customers? To refuse credit to the unworthy?

(6) Do I have sufficient knowledge of accounting? Taxes? Employment requirements, etc.? Proper accounting service is a must today.

Be Sure to Ask

The buyer or new business owner should also ask certain things about the business, such as:

(1) Is the economic situation good enough to risk the investment?

(2) Have proper surveys been made of the location of this business to assure its success in future years? Such things as possible change of highways, business sections, parking facilities, amount of foot or passenger traffic passing directly in front, zoning, and so on, are important.

(3) Are profit possibilities good enough? Unless this can be closely estimated, one should be very careful about buying or proceeding.

(4) Is the price of the business too high? Or does it require too much capital investment?

(5) Does it have past records of profits and sales volume available and are they satisfactory?

(6) What is the indicated competition now or in the future for sale of the product or service?

(7) Is the profit dependent largely on patents, copyrights, and tariff protection, or does it command a market because of quality, volume, and production skills?

(8) Will accounts receivable be from purchasers or users of a sound type and geographically concentrated locally?

(9) Is the business primarily dependent on Government orders or one or two large customers? If so, to what extent?

(10) Is the property in good condition?

(11) Will the proposed debt to be taken on be too high? Will debt payments be too large for the income expected?

(12) How much money will be required for:

(a) Original purchase or buildings, equipment, and name?
(b) Repairs?
(c) Modernization or changes necesary to operate?
(d) New equipment within first two years?
(e) Approximate minimum required (after expected level of volume is attained) for accounts receivable? For inventory?
(f) Cash and bank account balance?
(g) Reserves set aside to pay all expense accruals of large size, such as taxes, insurance, depreciation?
(h) How good is the estimated amount needed for salaries, wages, utilities, advertising, taxes and other expenses?

(13) How good is the lease—if there is one? Option to buy the building?

(14) If I will not be sole owner, how can I prepare myself for the time that I may not agree on policy with my partners or stockholders?

After due consideration of all these questions, it is possible to make a sound decision on whether to invest in any business.

THE MIAMI DEPOSIT BANK
R. B. Stewart, *President*

"And I'm willing to start at the bottom—vice-president, or something like that!"

Ideas for Correspondents

Survey Puts the Fringe on Top

Which is better—fringe benefits or fatter paychecks? Appropriately enough, the fringe was found on top by The First Pennsylvania Banking and Trust Company. Personnel Officer Charles W. Books and his assistant, Rudolph H. Weber, explained why during a discussion with the bank's correspondents.

It costs the bank the same either way; you can deduct the outlay as a payroll expense or as a business expense. But if you put it in the paycheck, the employee pays 20% to 25% of it for income tax. Any benefits he hopes to get he'll have to buy with what's left. So he starts with one strike against him.

Here's what they said about insurance—life, medical, health and accident. If the employee buys his own he (1) has to pay more than the low group rates an employer can get and (2) may be barred or penalized because of age or health reasons.

Pension plans by the individual are costly because he's taxed all along the line. A company arrangement defers the tax until post-retirement when lower income and higher exemptions lighten the blow. It could cost the employee twice as much as the company to get the same benefits.

"Pick the profit sharing over the cash bonus," suggests Messrs. Books and Weber. It's geared to the earnings and is paid only when they warrant it. Put it on a deferred basis and the employee gets further tax advantages. And, too, it can supplement the pension plan.

Still feel it's better to boost the paycheck than to add the fringe benefits? Then consider this:

✤The pressure for employer-paid benefits has steadily increased. They now cost $6.5-billion a year.

✤The demand for benefits becomes stronger each year. Increased salaries may temporarily relieve the pressure—but only temporarily.

✤Fringe benefits attract and retain better employees; increase efficiency, and promote goodwill.

✤Dollar-for-dollar the return to both employer and employee is greater when the money goes for fringe benefits than when it goes into a paycheck.

For a Fruitful Branch

The important factors in planning a branch office were discussed by Harry I. Lauer, vice-president, The First Pennsylvania Banking and Trust Company, at its recent meeting with correspondents. Here are five points he stressed.

Pick a spot where people stop. A heavily traveled highway only guarantees that people will pass. A

center with shopping, eating, and amusement facilities will make them stop. Find a corner or open site where you can be seen and with adequate parking space, so you can be visited.

Check the potential. Not only the number, but also the kinds of customers. It's best if you can serve residential, commercial, and industrial customers. The potential drops as the number of categories and the number of people decline.

Plan your space. Forget standard designs; no two sites and no two neighborhoods are alike. Use the sales area for selling—reserve the main floor for the direct service of customers. Plan to expand and be sure there's room for it.

Assign a qualified staff. Strong, well trained leadership in the branch will pay big dividends by running it as a neighborhood bank. Cut the branch team loose from the main office's apron strings. If you can't, you don't have the right people running the branch.

Use new business as the yardstick. Just keeping your old customers isn't enough. One reason for branching out is to follow customers who have moved, but that's not the only reason. The real measure of expansion lies in the new business that's acquired by the move.

New Books

COMMON STOCKS AND BUSINESS CYCLES. By *Edgar Lawrence Smith.* William-Frederick Press, New York. 226 pp. $10. The author of *Common Stocks as Long-Term Investments* now offers "a practical analysis of the basic causes and patterns of cyclical behavior in economic series." It is intended primarily for investment managers.

THE INTELLIGENT INVESTOR. By *Benjamin Graham.* Harper, New York. 292 pp. $4.95. Second revised edition of a guide. The fundamental principle is that investment theory and practice must constantly be adapted to economic conditions. In a chapter on the stock market at the beginning of this year Mr. Graham is impelled to conclude that "the present level of stock prices is a dangerous one" and "may well be perilous because prices are already far too high." But even if this was not the case, the market's momentum was such as inevitably would carry it to unjustifiable heights. "Frankly, we cannot imagine a market of the future in which there will never be any serious losses, and in which every tyro will be guaranteed a large profit on his stock purchases."

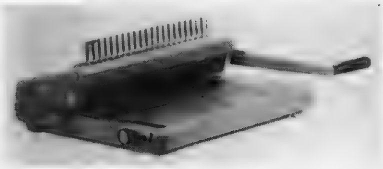
IDEAS | SYSTEMS

WHAT'S NEW

BOOKLETS | PRODUCTS

This department is compiled by ETHEL M. BAUER *of* BANKING'S *staff.*

A DESK-TOP, portable machine which combines punching and plastic binding operations on a single chassis has been designed by the **American Photocopy Equipment Company, Evanston, Ill.** Weighs less than 10 pounds and features a removable handle which can be inserted in either the right or left side, enabling it to be used by right- or left-handed persons. The APECO ComBind Bindak will reach the market in January.



AN ELECTRONIC automatic camera is being manufactured by the **United Electronic Laboratories, Louisville, Ky.** CAM-EYE takes "stop-motion" sequence pictures instead of motion pictures. Condenses up to two weeks of time on a single roll of film. Films every activity, every few seconds, all day long. CAM-EYE has preset controls, operates automatically, turns itself on for as many hours of the business day or night as required, and then shuts itself off. Write for information kit.

A NEW kind of Reader-Printer that automatically produces positive prints from negative microfilm with push-button operation has just been announced by **Documat, Inc., Belmont, Mass.** The flexibility of the machine is such that both roll film and unitized film may be either read or printed, or both. In this way, the same machine can be used to consult microfilmed documents, and if copies are desired, they can be quickly reproduced with push-button ease. Reproduced copies emerge right in front of the operator in highest fidelity. Write for further information.

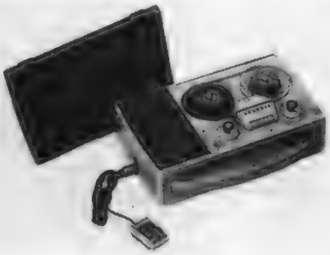
A FLAG display stand, designed for use in lobbies, reception rooms, and on stages, combines a handsome flag staff, jet-stream blower, and bright spotlight in a single attractive unit to permit an instant, illuminated, wafting display of Old Glory for all types of functions and ceremonies. Of sturdy, welded tubular steel, finished in black enamel, the 7-foot-tall stand includes a large 2′ x 3′ silk flag. A base-mounted "start-stop" button operates both fan and shielded floodlamp. Each unit is equipped with a heavy duty 20′ cord including plug for standard electrical outlet. Complete details and brochure available from **D. C. Turner, Inc., 165 North Water St., Rochester 4, N. Y.**

FIFTY-POWER pocket microscope, precision made of finest optical steel, is only 3½″ long. Has an adjustable lens for fine focusing, black crinkle-finish barrel, with chrome parts; it includes a pocket clip and pigskin case with snap fastener. Available from **Leslie Creations, Lafayette Hill, Penna.**

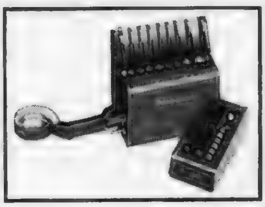
A CONVENIENT indexing tape for home or office, catalogs, rate books, dictionary, telephone directory, etc., is available from **Tape Indexes, Inc., 512 E & C Building, Denver 2, Colo.** Made with laminated Scotch Brand transparent tape and printed with two-color alphabet letters, Cel-O-Tab makes a strong, flexible index tab that won't break or tear in normal use. Available in both single and four-alphabet rolls.

A NEW high volume card file that provides instant access to any one of 200,000 cards in less than three seconds has been introduced by the **Mosler Safe Company.** Called the Selectronic Record File, the unit is designed to house any size card. Trays to hold records of different sizes may be used simultaneously. For further information write to company at **320 Fifth Avenue, New York 1.**

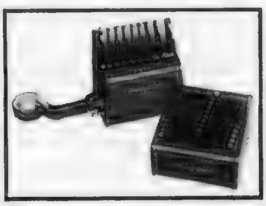
PORTABLE tape recorder, manufactured by Grundig of West Germany, is available from **North American Industries, Dept. GP242, 101 West 31st St., New York 1, N. Y.** Powered by ordinary flash-light batteries, this unit offers almost one hour of high-fidelity sound reproduction. The supersensitive, matchbook-size microphone weighs less than one ounce, yet is capable of picking up sound from as far as 25 feet away while neatly tucked in shirt or vest pocket. The entire unit, including speaker, is housed in a handsomely designed carrying case of charcoal and office gray. Size is 7″ x 3″ x 11″ and weight 5 pounds.



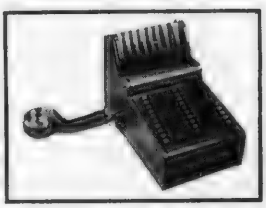
VERSATILE... NEW... REDUCED SIZE WITH INSTANT ELECTRIC KEY ACTION



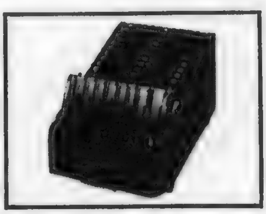
With counter space at a premium, this small, extremely efficient, electrically operated Model 502 is invaluable to tellers.



When single key depression is preferred and conservation of counter space is not important, the Model 500 is an ideal choice.



When a single unit combining both a keyboard and coin dispenser for direct delivery of coins is desired, the Model 450 is the perfect answer.



If counter construction will not permit the use of some other model or it is desired to have tellers personally hand coins to customers, then Model 350 will fill the need completely.

With counter space at a premium, the small, extremely efficient, electrically operated Model 502 Brandt Electric Automatic Cashier is invaluable to tellers. It consists of two units, a coin dispenser and a keyboard. The keyboard may be used anywhere desired in the teller's work area including the cash drawer. When the keyboard is placed in the cash drawer the Model 502 requires less than half as much space on the counter as other coin paying machines. Instant payments can be made with the Model 502 because of the simplicity of the keyboard. Instead of searching among 99 keys, as on other machines, for the proper key, the teller makes the selection for a payment from only 19 keys. It's as easy as that! Keys are instantly located.

Also available is the Model 500 Brandt Electric Automatic Cashier which too is made up of two units, a coin dispenser and a keyboard. This machine differs from the Model 502 in that the keyboard has a full range of keys from 1¢ to 99¢ inclusive, thus requiring the depression of only a single key to make a coin payment.

Still more electrically operated Brandts available are the Models 350 and 450 combining the coin dispenser and full keyboard into a single unit. For further information regarding these machines see the illustrations and descriptions thereof to the left.

In addition to the above Brandts, there are also manually operated machines similar in design and operation to the Models 350 and 450.

Among the several types of Brandt Automatic Cashiers available, there is one to fit every coin paying requirement.

Other Brandt products include a Coin Sorter and Counter, Coin Counter and Packager and a complete line of coin wrappers and bill straps.

A Brandt representative will be glad to give you further information regarding our products or, if you prefer, we shall write you giving full particulars.

BRANDT® AUTOMATIC CASHIER® CO.
Watertown, *Established 1890* **Wisconsin**

Automobile Leasing

(CONTINUED FROM PAGE 140)

lease customers. The largest item on the asset side of the balance sheet will be the company's investment in its leased vehicles. . . . Included in this item or set out separately will be a certain number of cars on which the leases have expired, and which are awaiting sale. The number of these cars should be in proper ratio to the total fleet, giving evidence that the cars are being disposed of promptly, because they represent an investment in equipment that is no longer producing revenue and can only decline in value if not disposed of promptly in the proper markets.

Evaluating Liabilities

Let us look at the liability side, where we might see debt in proportion of three times the invested capital of the owners. . . . It is obvious that debt in a ratio of three times capital gives a cushion or margin of safety of 25% to the financing institution. For the moment overlooking any profit from the lease operation itself, the fleet could be sold for 25% less than book value without loss to the creditors. Any variation of this ratio of debt to capital will give more or less margin of safety to the creditors depending on whether the ratio is more or less than three to one.

When looking at the balance sheet in the case of an automobile leasing company, the debt is thought of in relation to the book value of leased automobiles . . . and it is only the book value at the end of the lease that need concern us.

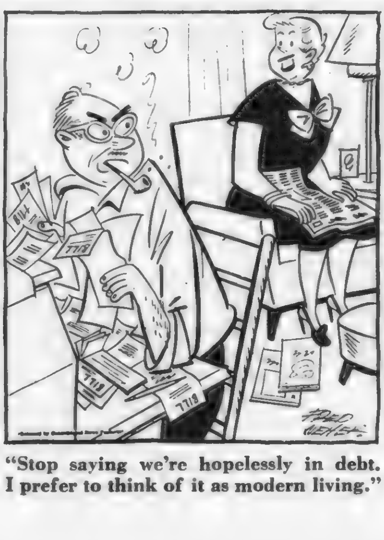
There is an asset of the hidden type in the fact that these cars are all covered by leases requiring monthly rentals in an amount that should be sufficient to cover depreciation, expenses, and an operating profit, while keeping the company's debt amortized to a point always covered by a realistic sale value of the fleet of automobiles under any and all conditions.

The record of the company should indicate a profit in the day-to-day leasing operation after application of sound accounting to income and costs. Also, there should be no loss on the sale of automobiles.

Taking all of this into consideration and finding satisfactory answers, it is possible to regard the fleet of leased automobiles in the sense of a current asset rather than a fixed asset based on a rather loose but practical analysis of the facts. This analysis should reveal that the cars are revenue producing, readily marketable, and carried at a fair book value after a realistic depreciation charge. If these factors are borne out by the analysis, the asset can certainly be considered as being of a current nature. . . .

Financing has been provided to automobile lease operators in various forms, which have varied from loans per car to unsecured revolving credit type financing based on a loan agreement requiring limitations on debt ratios and other protection usually provided by such an instrument. However, whatever form the financing should take, the principles of proper ratios in the balance sheet providing adequate margin of safety to the creditors through capital investment and experienced and capable management should be required.

A number of automobile dealers . . . have not carefully separated their leasing operation from the normal sales and service activities. . . . The dealer and his banker should recognize that invested capital, as well as borrowed, is necessary to operate a fleet of leased cars and that executive time and attention are necessary, and the cost of both must be covered by the rentals charged. Further, it should be recognized that the cost of a car to the leasing operation must include a profit to the dealership. Without this, the added volume is wasted effort and can represent undue risk.



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BANKING

The OUTLOOK and Condition of Business

(CONTINUED FROM PAGE 34)

rising trend in business investment is absolutely essential. The only sources of capital funds are depreciation allowances, retained earnings, the sale of Government bond holdings, borrowing from lending institutions, or borrowing in the open market.

The most important of these is the first, and, while it may be wishful thinking, there seems real hope today that the full-dress inspection of our tax system just started will disclose the dangerous flaws in our depreciation provisions.

Progress on the Shelf

We could double or triple the amount spent on research and the development of better methods and it would be wasted if our tax laws make it unprofitable to discard the old and install the new.

"Events have been moving faster than men's minds," says Per Jacobsson, managing director of the International Monetary Fund. "Recent improvements have implications for policy which have not been fully grasped."

He was speaking in another connection, but the thought applies at this point because there is a close connection between depreciation policies and our ability to maintain our world competitive position.

The importance of this little understood threat to our future was well stated not long ago before a subcommittee of the Senate Committee on Small Businesses by Joel Barlow, partner in the firm of Covington and Burling, Washington, D. C.

"In my judgment, tax depreciation affects a company's capacity for economic progress and growth as much or more than any other Government fiscal policy . . . It is an important factor not only in national security but in the control of inflation. It bears upon our ability to maintain a healthy domestic competition, and it has an equal bearing on our capacity to meet foreign competition and economic warfare. . . .

"With our high labor rates in this country . . . steel, machine tools, automobiles . . . are beginning to flow into this country simply because we are not competing effectively in the markets abroad, and I am not . . . arguing for embargoes or high tariffs. I believe that if you free up the ingenuity of American industry and give it a realistic tax depreciation policy, so that they can get the obsolescence out of American plants and get their investment behind them in a foreseeable period of time, we won't need to worry about this problem of high tariffs and embargoes on the importation of foreign machine tools.

"The principal difficulty in our tax depreciation picture lies in the failure of the taxing authorities to take full account of technological obsolescence.

"The pinch of . . . antiquated depreciation policies is felt, first, as we know, by the smaller companies. They have the more obsolete plants because of unsatisfactory depreciation practices in the past, and the unavailability of outside capital funds. This makes them higher-cost producers, generally, and unable to compete effectively.

World Trade Relations

The fourth in this collection of hopeful assumptions is that a sweeping reversal of policy was heralded by Secretary Anderson when he said the time had come for other nations to take a larger part in aiding undeveloped areas, and for restrictions on imports from U. S. to be relaxed.

Moreover the trend toward softer loans in our international dealings is being coupled with a harder look at our own trade needs.

Soft loans are to be tied more firmly to the purchase of U. S. goods on the theory that it no longer makes sense if some young African nation, for instance, borrows from us and then shops around Germany for things to buy with the money.

This will provide controversy enough to last a long time, because we still have plenty of great intellects living in the '40s, but there was surprisingly swift reaction in several European nations who cautiously lifted some restrictions on our products.

The vast domestic market has long overshadowed foreign trade in the U. S. But the adverse balance of trade cannot be ignored indefinitely. American manufacturers have been seeking greener pastures overseas and they have found them in terms of lower taxes and cheaper labor. All this contributes to the adverse balance of trade, and, as long as the trend continues, this country must expect to lose at least $1-billion of gold and liquid dollar assets a year.

No Nation So Rich

The latest report of Chairman William Mitchell of the A.B.A. committee dealing with the foreign outlook made some timely comments on the "State of the Dollar."

After pointing to estimates that the United States external payments deficit will rise to $4.9-billion this year, compared with $3.4-billion last year when foreigners drew $2.3-billion in gold from U. S., the report cites this paragraph from a recent bulletin of the First National City Bank of New York:

"No nation is so rich that it can run indefinitely balance of payment deficits of $2- and $3-billion a year. At some point foreign countries would become worried over the cumulative rise in United States short-term indebtedness and make increased demands on the Treasury for gold."

The report cites the following annual changes in the gold stock of the United States from the Federal Reserve *Bulletin*.

(in millions of dollars)

End of year	*Gold stock*	*Net change during year*
1949	$24,427	$ 165
1950	22,706	−1,743
1951	22,695	53
1952	23,187	380
1953	22,030	−1,162
1954	21,713	−297
1955	21,690	−41
1956	21,949	306
1957	22,781	799
1958	20,534	−2,275
1959 (end of August)	19,524	−1,014

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